

Commonwealth of Australia

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

CIRCULATED BY

SENATOR THE HONOURABLE MATHIAS CORMANN
MINISTER FOR FINANCE
OF THE COMMONWEALTH OF AUSTRALIA
DECEMBER 2017

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CONTENTS

PREFACE.....	1
COMMENTARY ON THE FINANCIAL STATEMENTS	3
Introduction.....	5
Discussion and analysis.....	8
CONSOLIDATED FINANCIAL STATEMENTS, INCLUDING THE AUSTRALIAN GOVERNMENT AND GENERAL GOVERNMENT SECTOR FINANCIAL REPORTS	23
Independent audit report	25
Statement of compliance.....	27
Australian Government operating statement	29
Australian Government balance sheet.....	30
Australian Government cash flow statement	31
Australian Government statement of changes in equity (net worth)	32
SECTOR STATEMENTS	33
Australian Government operating statement by sector – including General Government Sector Financial Report	35
Australian Government balance sheet by sector – including General Government Sector Financial Report	37
Australian Government cash flow statement by sector – including General Government Sector Financial Report	39
Statement of changes in equity (net worth)	41
NOTES TO THE FINANCIAL STATEMENTS	45

PREFACE

I am pleased to present the Consolidated Financial Statements (CFS) for the Australian Government for the financial year ended 30 June 2017. The CFS presents the whole of government and general government sector (GGS) financial reports. It consolidates the audited accounts of 181 entities across the public sector.

The CFS has been prepared in accordance with the regulations of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act) and applicable Australian Accounting Standards (AAS), including the requirements of AASB 1049 *Whole of Government and General Government Sector Financial Reporting* (AASB 1049). The CFS shows the results of the Australian Government's financial performance and cash flows for the year ended 30 June 2017 and the Australian Government's financial position as at 30 June 2017.

The Preface and the Commentary should be read in light of the information and explanations provided in the CFS.

Operating statement

The Australian Government's net operating balance for the year ended 30 June 2017 was a deficit of \$36.6 billion. For the year ended 30 June 2016, the Australian Government reported a net operating balance deficit of \$39.2 billion.

The Australian Government's taxation revenue increased by \$19.0 billion (5.1 per cent) in 2016-17, reflecting an increase in taxation revenue from companies and individuals. Non-taxation revenue increased by \$3.7 billion (11.2 per cent).

The Australian Government's expenses increased by \$20.0 billion (4.5 per cent) in 2016-17. This was mainly driven by a \$11.9 billion (8.6 per cent) increase in gross operating expenses and a \$8.4 billion (3.0 per cent) increase in current and capital transfers.

In addition, the Australian Government's total net acquisition of non-financial assets increased by \$0.9 billion (11.5 per cent).

The Australian Government's fiscal balance deficit improved by \$1.7 billion (3.7 per cent) from \$47.0 billion for 2015-16 to \$45.3 billion for 2016-17, primarily as a result of increased revenue.

Balance sheet

The Australian Government's net worth was negative \$391.3 billion as at 30 June 2017. As at 30 June 2016, the Australian Government's net worth was negative \$413.6 billion.

The Australian Government's financial assets increased by \$38.8 billion (9.1 per cent) for the year ended 30 June 2017. Total non-financial assets increased by \$9.3 billion (5.5 per cent).

Preface

The Australian Government's liabilities increased by \$25.8 billion (2.6 per cent) to \$1,033.9 billion. Interest bearing liabilities increased by \$55.5 billion (10.1 per cent), with a \$54.7 billion increase in the issuance volume and market value of Australian Government Securities.

Cash flows

The Australian Government recorded a cash deficit of \$38.9 billion for the year ended 30 June 2017 from operating activities and investing activities in non-financial assets. The closing cash position was \$6.3 billion.

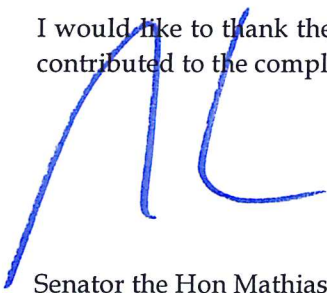
Contingent liabilities, contingent assets and risks

Contingent liabilities and contingent assets for the Australian Government are not disclosed in the balance sheet but are set out in detail in Note 9A of the CFS. Analysis of interest rate, foreign currency, and other price risks that could potentially impact on the Australian Government's financial position is included in Note 9B of the CFS.

Final Budget Outcome

Under the *Charter of Budget Honesty Act 1998* (the Charter), the Australian Government is also required to publicly release and table a Final Budget Outcome (FBO) report no later than three months after the end of the financial year. The FBO for the 2016-17 financial year was released by the Treasurer and I on 26 September 2017. Under the Charter, the FBO must be based on external reporting standards; including AAS and the concepts and classifications set out in Government Finance Statistics, with any departures from those standards to be documented.

I would like to thank the many Australian Government employees whose efforts have contributed to the completion of the CFS.



Senator the Hon Mathias Cormann
Minister for Finance

**COMMENTARY ON THE
CONSOLIDATED FINANCIAL STATEMENTS**

INTRODUCTION

The 2016-17 Consolidated Financial Statements (CFS) for the Australian Government present the whole of government and general government sector (GGS) financial reports and are prepared in accordance with AASB 1049 *Whole of Government and General Government Sector Financial Reporting* (AASB 1049). They are required by section 48 of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act).

The CFS include the consolidated results for all Australian Government controlled entities as well as disaggregated information on the sectors of government (GGS, public non-financial corporations (PNFC) and public financial corporations (PFC)).¹ Unless explicitly stated, the financial results reported in this commentary comprise consolidated amounts for the Australian Government as a whole, inclusive of the GGS, and PNFC and PFC sectors.² The GGS results in the 2016-17 CFS materially align with the 2016-17 Final Budget Outcome.

AT A GLANCE

Table 1: Financial results for the year ended 30 June 2017³

	2016-17 \$b	2015-16 \$b	Change \$b
Revenue	425.5	402.8	22.7
Expenses	462.1	442.0	20.0
Net operating balance^(a)	(36.6)	(39.2)	2.6
Per cent of GDP	2.1	2.4	
Net capital investment	8.7	7.8	0.9
Fiscal balance^(b)	(45.3)	(47.0)	1.7
Per cent of GDP	2.6	2.8	
Total assets	642.6	594.5	48.1
Total liabilities	1,033.9	1,008.1	25.8
Net worth^(c)	(391.3)	(413.6)	22.3
Per cent of GDP	22.3	25.0	
Operating activities	(23.9)	(27.8)	4.0
Investing activities in non-financial assets	(15.0)	(15.7)	0.7
Cash surplus/(deficit)	(38.9)	(43.6)	4.7

(a) Net operating balance equals total revenue minus total expenses.

(b) Fiscal balance (or net lending/borrowing) is the net operating balance less net capital investment.

(c) Net worth is calculated as total assets minus total liabilities.

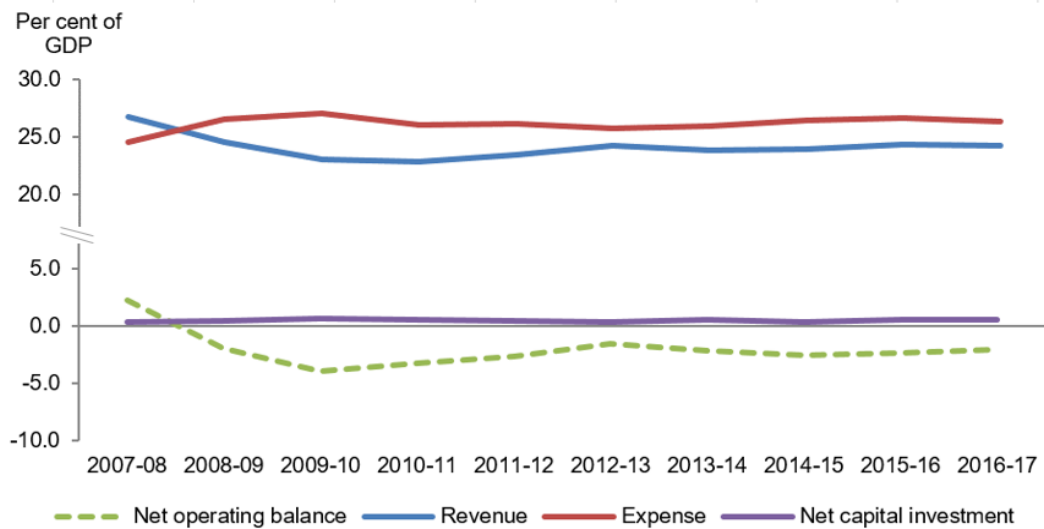
- 1 The institutional structure of the public sector is explained in Note 1 of the 2016-17 CFS. Note 14 of the 2016-17 CFS provides the list of Australian Government controlled reporting entities, including their sectoral classification.
- 2 The balances and movements detailed in the commentary have been rounded to the nearest tenth of a billion. Discrepancies between totals and sums of components are due to rounding.
- 3 The 2015-16 comparatives include adjustments to revenue (\$0.3 billion increase), assets (\$0.3 billion increase) and liabilities (\$0.1 billion decrease). Refer to Note 1.5 of the 2016-17 CFS for further information.

Operating statement (net operating balance)

Table 2: Operating statement

	2016-17 \$b	2015-16 \$b	Change \$b	Change %
Revenue	425.5	402.8	22.7	5.6
Per cent of GDP	24.3	24.3		0.1
Expenses	462.1	442.0	20.0	4.5
Per cent of GDP	26.3	26.7		0.4
Net operating balance	(36.6)	(39.2)	2.6	6.7
Per cent of GDP	2.1	2.4		0.3
Net capital investment	8.7	7.8	0.9	11.5
Per cent of GDP	0.5	0.5		0.0
Fiscal balance	(45.3)	(47.0)	1.7	3.7
Per cent of GDP	2.6	2.8		0.3

Chart 1: Operating statement (per cent of GDP) since 2007-08



Balance sheet (net worth)

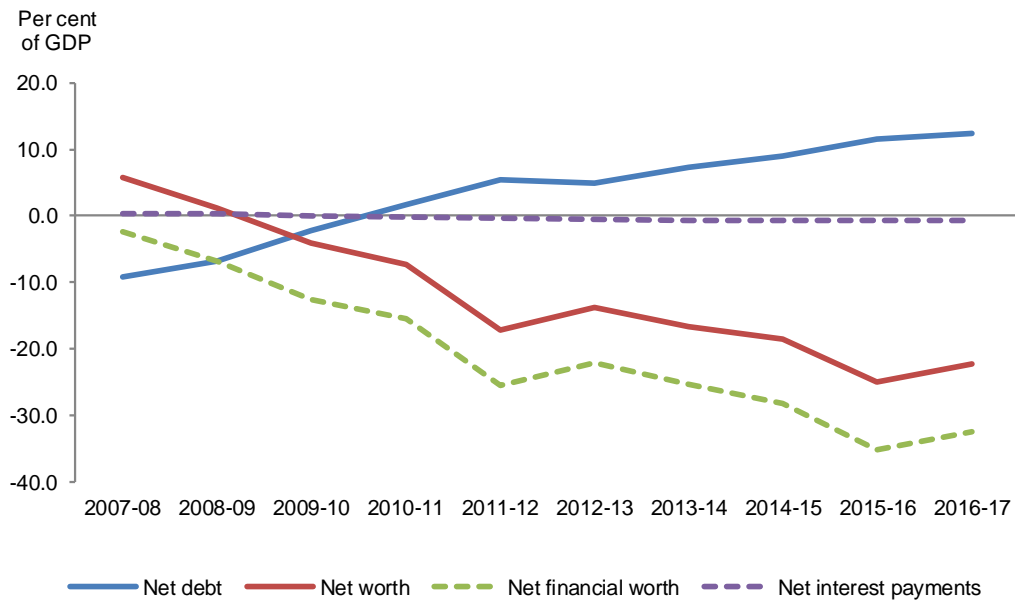
Table 3: Balance sheet

	2016-17 \$b	2015-16 \$b	Change \$b	Change %
Financial assets	466.0	427.1	38.8	9.1
Non-financial assets	176.6	167.4	9.3	5.5
Total assets	642.6	594.5	48.1	8.1
Total liabilities	1,033.9	1,008.1	25.8	2.6
Net worth	(391.3)	(413.6)	22.3	5.4
Per cent of GDP	22.3	25.0		2.7
Net financial worth^(a)	(567.9)	(580.9)	13.0	2.2
Per cent of GDP	32.4	35.1		2.7
Net debt^(b)	216.7	191.5	25.2	13.1
Per cent of GDP	12.4	11.6		0.8
Net interest payments	(11.4)	(10.8)	(0.6)	5.2
Per cent of GDP	0.6	0.7		0.0

(a) Net financial worth equals total financial assets minus total liabilities.

(b) Net debt equals the sum of the deposits held, government securities, loans and other borrowing, minus the sum of the cash and deposits, advances paid and investments, loans and placements.

Chart 2: Balance sheet (per cent of GDP) since 2007-08



DISCUSSION AND ANALYSIS

Net operating balance

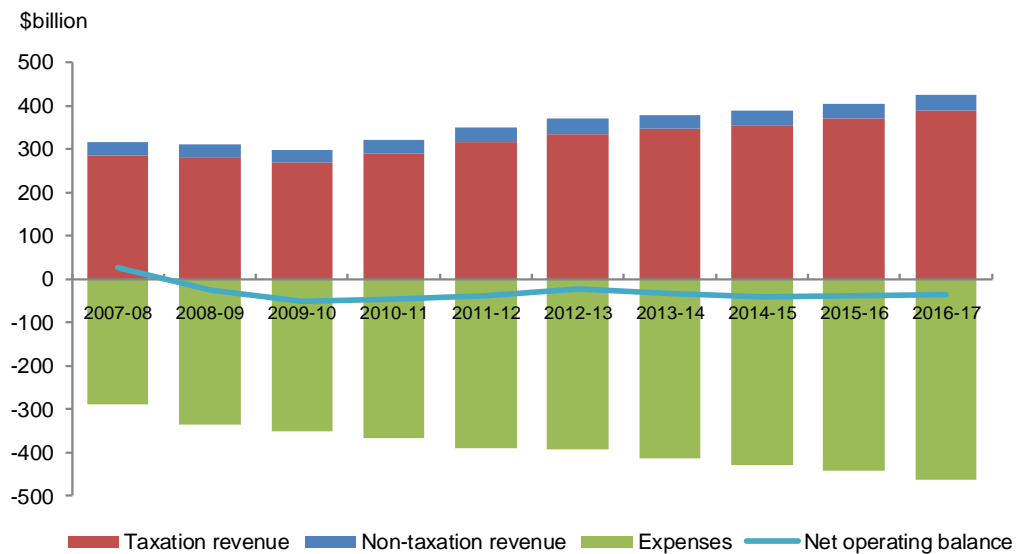
The Australian Government's net operating balance was a deficit of \$36.6 billion for the year ended 30 June 2017, an improvement of \$2.6 billion (6.7 per cent) against the 30 June 2016 result.

Table 4: Operating statement

	2016-17 \$b	2015-16 \$b	Change \$b	Change %
Revenue	425.5	402.8	22.7	5.6
Expenses	462.1	442.0	20.0	4.5
Net operating balance	(36.6)	(39.2)	2.6	6.7
Less Net acquisitions of non-financial assets	8.7	7.8	0.9	11.5
Fiscal balance	(45.3)	(47.0)	1.7	3.7

Chart 3 below shows the composition of the Australian Government's net operating balance since 2007-08.

Chart 3: Operating statement since 2007-08



Revenue

The Australian Government's revenue increased by \$22.7 billion (5.6 per cent) in 2016-17 to \$425.5 billion.

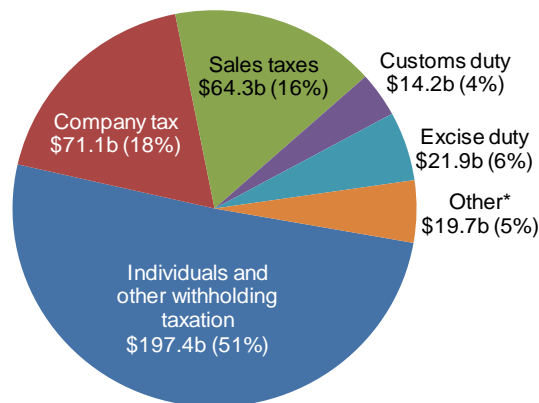
Table 5: Revenue⁴

	2016-17 \$b	2015-16 \$b	Change \$b	Change %
Taxation revenue	388.6	369.6	19.0	5.1
Non-taxation revenue	36.9	33.2	3.7	11.2
Total revenue	425.5	402.8	22.7	5.6

Taxation revenue

The Australian Government's total taxation revenue for the year ended 30 June 2017 was \$388.6 billion. The composition of taxation revenue is shown in Chart 4 below.

Chart 4: Composition of taxation revenue



* Other includes Superannuation fund taxes (\$8.2 billion), Other indirect taxation (\$6.6 billion), Fringe benefits tax (\$3.9 billion) and Resource rent taxes (\$1.0 billion).

Taxation revenue increased by \$19.0 billion (5.1 per cent) in comparison to 2015-16. The key changes were:

- an increase of \$7.5 billion (11.7 per cent) in **company tax**. This was due to stronger profitability of companies and stronger compliance outcomes;

⁴ The 2015-16 comparatives include an adjustment that reclassified \$0.5 billion from non-taxation to taxation revenue (refer to Note 1.5 of the 2016-17 CFS for further information).

Commentary on the financial statements

- an increase of \$7.4 billion (3.9 per cent) in **individuals and other withholding taxation**. The growth in individuals and other withholding taxation is broadly consistent with moderate growth in the labour market;
- an increase of \$2.4 billion (4.0 per cent) in **sales taxes** attributable to goods and services tax (GST). The increase in GST was consistent with growth in consumption and dwelling investment; and
- an increase in **superannuation fund taxes** of \$1.4 billion (20.4 per cent), mainly due to higher fund incomes driven by foreign exchange gains and taxable contributions.

Refer to Note 2A of the 2016-17 CFS for further information.

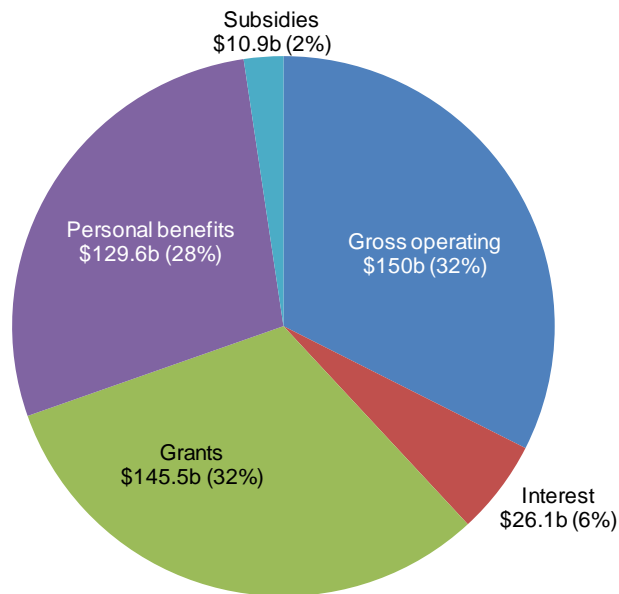
Non-taxation revenue

The Australian Government's total non-taxation revenue for the year ended 30 June 2017 was \$36.9 billion. For more information, refer to Notes 2B-D of the 2016-17 CFS.

Expenses

The Australian Government's total expenses for the year ended 30 June 2017 were \$462.1 billion. The composition of expenses is shown in Chart 5 below.

Chart 5: Composition of expenses



The Australian Government's total expenses increased by \$20.0 billion (4.5 per cent) in comparison to 2015-16. The key changes were:

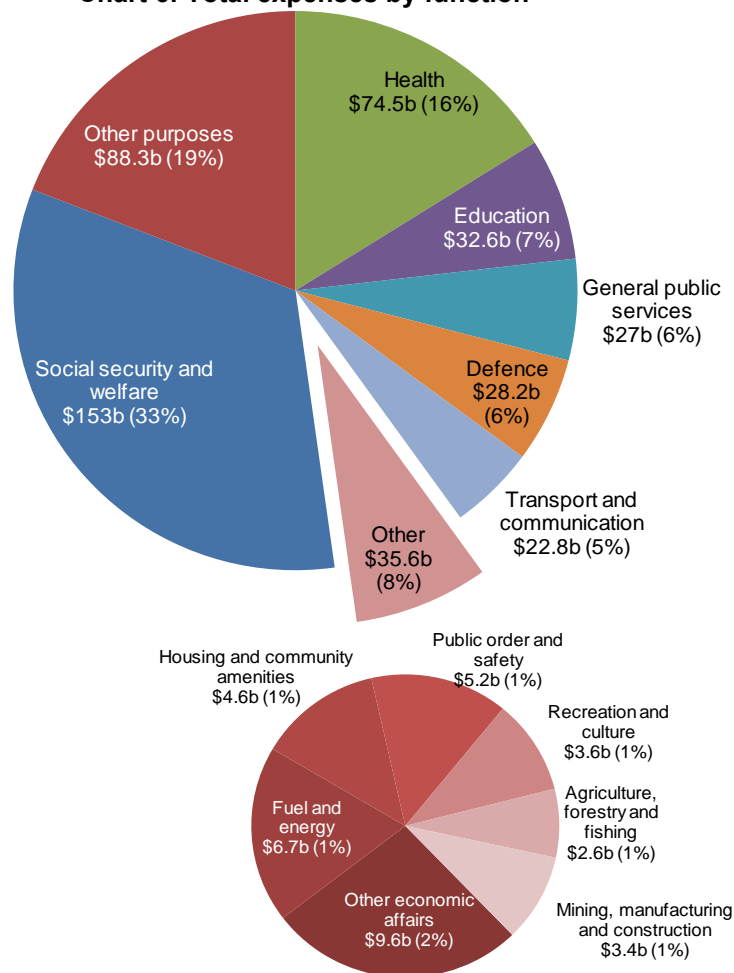
- an increase in **gross operating** expenses of \$11.9 billion (8.6 per cent). This was driven by an increase of \$9.2 billion in the supply of goods and services expense, mainly due to:
 - an increase in benefits to households in goods and services of \$5.9 billion, primarily relating to Aged Care Subsidies (\$2.8 billion), the National Disability Insurance Scheme (\$1.5 billion), Pharmaceutical Benefits (\$1.3 billion) and Medical Benefits (\$1.1 billion);
 - an increase in the supply of goods and services of \$3.2 billion, primarily relating to the National Broadband Network (\$1.2 billion) and the Defence function (\$1.0 billion);
- an increase of \$11.4 billion in current and capital **grants**. The primary contributors to the increase included:
 - an increase of \$7.1 billion in grants to state and territory governments, primarily for GST payments;

Commentary on the financial statements

- an increase of \$2.5 billion in grants through State and Territory Governments, mainly driven by Local Government Financial Assistance Grants;
- an increase of \$1.9 billion in grants to the private sector, predominantly relating to the Health function; and
- a decrease of \$2.0 billion in **personal benefits** expense, primarily as a result of changes to Family Tax Benefit.

Chart 6 below provides a presentation of total expenses based on how the Australian Government allocated resources across the range of policy areas. The chart highlights the relative cost of each function for 2016-17.

Chart 6: Total expenses by function



Refer to Note 3 of the 2016-17 CFS for further information on expenses.

Net worth

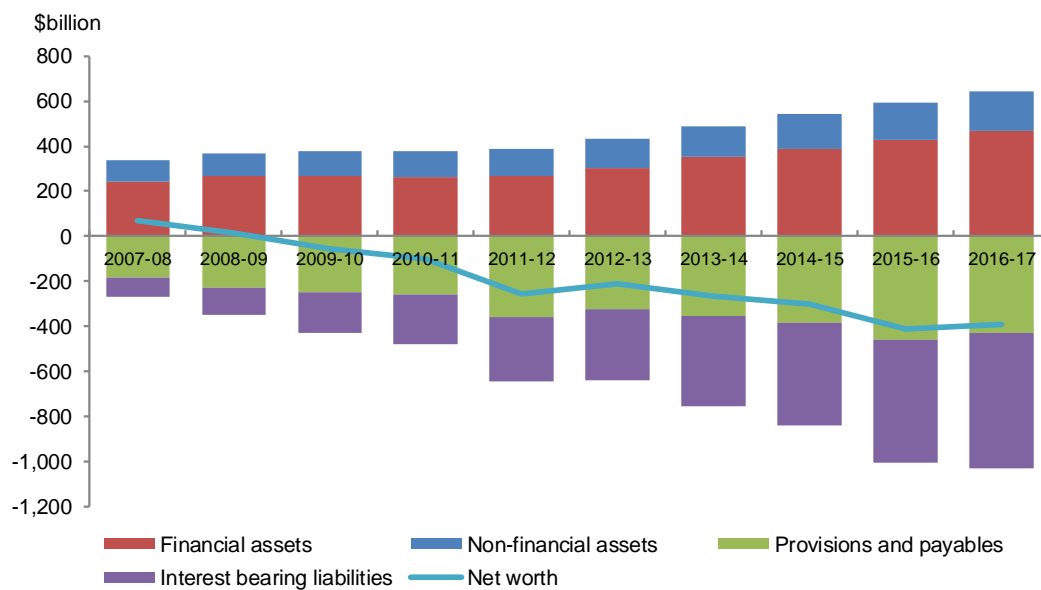
The Australian Government's net worth improved by \$22.3 billion in 2016-17 to a negative net worth of \$391.3 billion as at 30 June 2017.

Table 6: Balance sheet

	2016-17 \$b	2015-16 \$b	Change \$b	Change %
Financial assets	466.0	427.1	38.8	9.1
Non-financial assets	176.6	167.4	9.3	5.5
Total assets	642.6	594.5	48.1	8.1
Interest bearing liabilities	602.7	547.2	55.5	10.1
Provisions and payables	431.2	460.9	(29.7)	6.4
Total liabilities	1,033.9	1,008.1	25.8	2.6
Net worth	(391.3)	(413.6)	22.3	5.4

Chart 7 below shows the composition of the Australian Government's financial position since 2007-08.

Chart 7: Balance sheet since 2007-08



Assets

The Australian Government's total assets as at 30 June 2017 were \$642.6 billion. The composition of assets is shown in Chart 8 below.

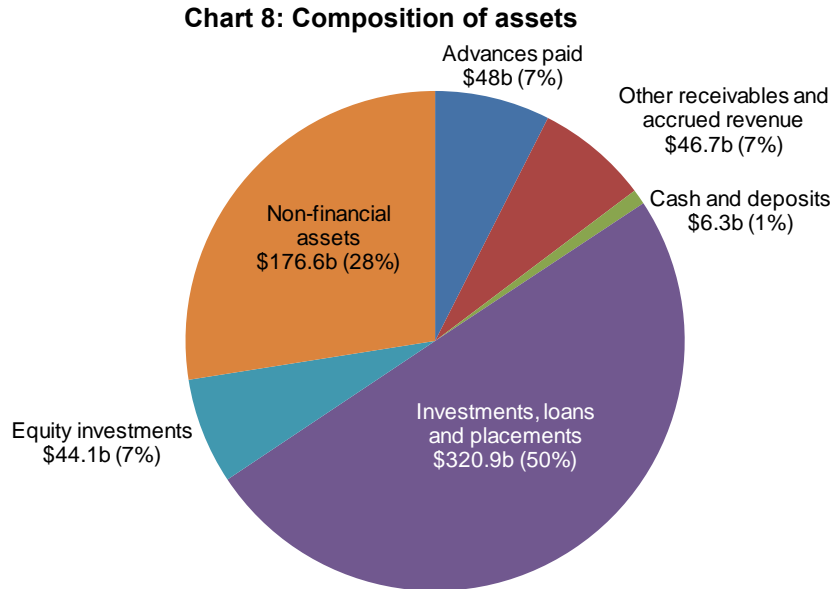


Table 7: Assets

	2016-17 \$b	2015-16 \$b	Change \$b	Change %
Financial assets				
Cash and deposits	6.3	5.7	0.6	10.0
Advances paid	48.0	48.2	(0.2)	0.4
Other receivables and accrued revenue	46.7	43.5	3.2	7.3
Investments, loans and placements	320.9	286.8	34.1	11.9
Equity investments	44.1	42.9	1.2	2.9
Total financial assets	466.0	427.1	38.8	9.1
Non-financial assets	176.6	167.4	9.3	5.5
Total assets	642.6	594.5	48.1	8.1

The Australian Government's total assets increased by \$48.1 billion (8.1 per cent) since 30 June 2016.

The key changes in **financial assets** were:

- an increase of \$34.1 billion in **investments, loans and placements**, with the largest increases including:

- \$17.4 billion in Australian dollar securities and foreign exchange holdings held by the Reserve Bank of Australia;
- \$10.6 billion in non-equity investments held by the Future Fund;
- \$4.3 billion in the DisabilityCare Australia Fund; and
- an increase of \$3.2 billion in **other receivables and accrued revenue**, primarily resulting from an increase of \$4.1 billion in taxes receivable, partially offset by an increase of \$1.8 billion in the taxes impairment allowance.

The key changes in **non-financial assets** between 30 June 2016 and 30 June 2017 included the following:

- an increase of \$6.1 billion for other plant, equipment and infrastructure, primarily driven by an increase of \$5.3 billion in network assets for the rollout of the National Broadband Network; and
- an increase of \$2.4 billion for specialist military equipment, primarily as a result of additions.

Refer to Note 5 of the 2016-17 CFS for further information on assets.

Liabilities

The Australian Government's total liabilities were \$1,033.9 billion as at 30 June 2017. The composition of liabilities is shown in Chart 9 below.

Chart 9: Composition of liabilities

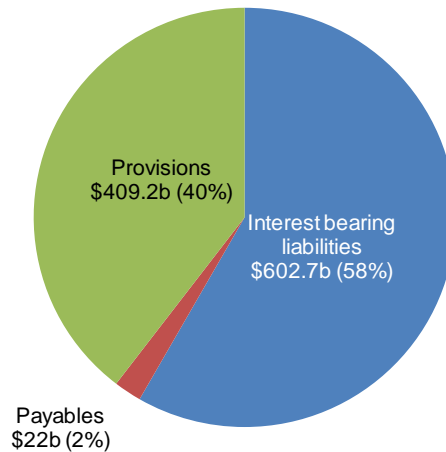


Table 8: Liabilities

	2016-17 \$b	2015-16 \$b	Change \$b	Change %
Interest bearing liabilities	602.7	547.2	55.5	10.1
Provisions and payables	431.2	460.9	(29.7)	6.4
Total liabilities	1,033.9	1,008.1	25.8	2.6

The Australian Government's liabilities increased by \$25.8 billion (2.6 per cent) since 30 June 2016.

The increase of \$55.5 billion in **interest bearing liabilities** primarily resulted from:

- an increase of \$54.7 billion in the issuance volume and market value of Australian Government Securities held by the Australian Office of Financial Management;
- an increase of \$4.0 billion in deposits held, predominantly due to an increase in Exchange Settlement Account balances; and
- an increase of \$1.5 billion in other borrowings, primarily relating to right of use licences to access network infrastructure for the National Broadband Network; partially offset by:

- a decrease of \$4.2 billion in other interest bearing liabilities, primarily due to lower holdings of securities sold under repurchase agreements (\$2.9 billion) and foreign currency swap principal payables (\$0.7 billion).

The decrease in **provisions and payables** of \$29.7 billion primarily resulted from:

- a decrease of \$35.2 billion in the superannuation liability, predominantly due to increases in the long-term government bond rate used to discount expected future superannuation payments (refer to Note 9C of the 2016-17 CFS for further information); and
- a decrease in other provisions of \$1.1 billion, mainly driven by lower expected payments to States and Territories under the Natural Disaster Relief and Recovery Arrangements; partially offset by:
 - an increase of \$3.4 billion in Australian currency (notes) on issue;
 - an increase of \$1.7 billion in other payables, mainly as a result of unearned revenue for spectrum licences commencing in 2017-18; and
 - an increase of \$1.3 billion in grants payable, primarily relating to multilateral grants.

Note 6 of the 2016-17 CFS provides further information on liabilities.

Cash flows

Table 9: Cash flows

	2016-17 \$b	2015-16 \$b	Change \$b	Change %
Cash receipts				
Operating activities	415.3	395.7	19.6	5.0
Investing activities in non-financial assets	2.3	0.5	1.9	>100.0
Investing activities in financial assets for policy purposes	3.7	4.4	(0.7)	15.6
Financing activities	86.6	68.2	18.4	27.0
Total cash receipts	508.0	468.7	39.2	8.4
Cash payments				
Operating activities	439.2	423.5	(15.7)	3.7
Investing activities in non-financial assets	17.3	16.2	(1.1)	7.0
Investing activities in financial assets for policy purposes	9.7	10.1	0.3	3.4
Investing activities in financial assets for liquidity purposes (net)	37.3	18.1	(19.3)	>100.0
Financing activities (net)	3.8	0.0	(3.8)	>100.0
Total cash payments	507.4	467.9	(39.5)	8.6
Net movement in cash	0.6	0.9	(0.3)	35.8
Cash at beginning of the year	5.7	4.8	0.9	18.5
Cash at end of year	6.3	5.7	0.6	10.0
Key fiscal aggregate				
Operating activities	(23.9)	(27.8)	4.0	14.2
Investing activities in non-financial assets	(15.0)	(15.7)	0.7	4.7
Cash surplus/(deficit)	(38.9)	(43.6)	4.7	10.8

The Australian Government's cash balance was \$6.3 billion at 30 June 2017. For the year ended 30 June 2017, the Australian Government recorded a cash deficit of \$38.9 billion, a decrease of \$4.7 billion compared to a cash deficit of \$43.6 billion for 2015-16.

Receipts and payments

The following charts provide a detailed break-down of Australian Government receipts and payments for 2016-17, showing the relative composition of each dollar received and paid.

Chart 10: Composition of each dollar of cash received in 2016-17

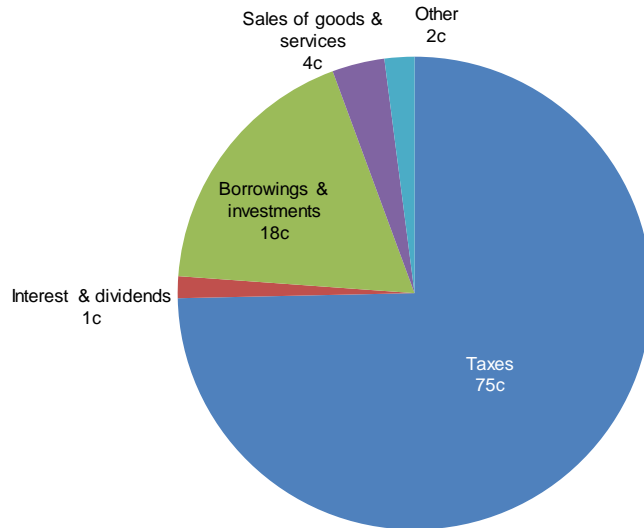


Chart 11: Composition of each dollar of cash paid in 2016-17

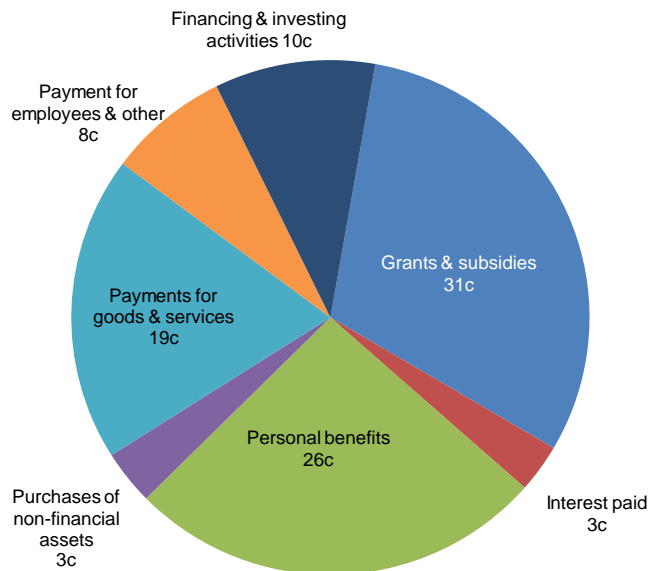
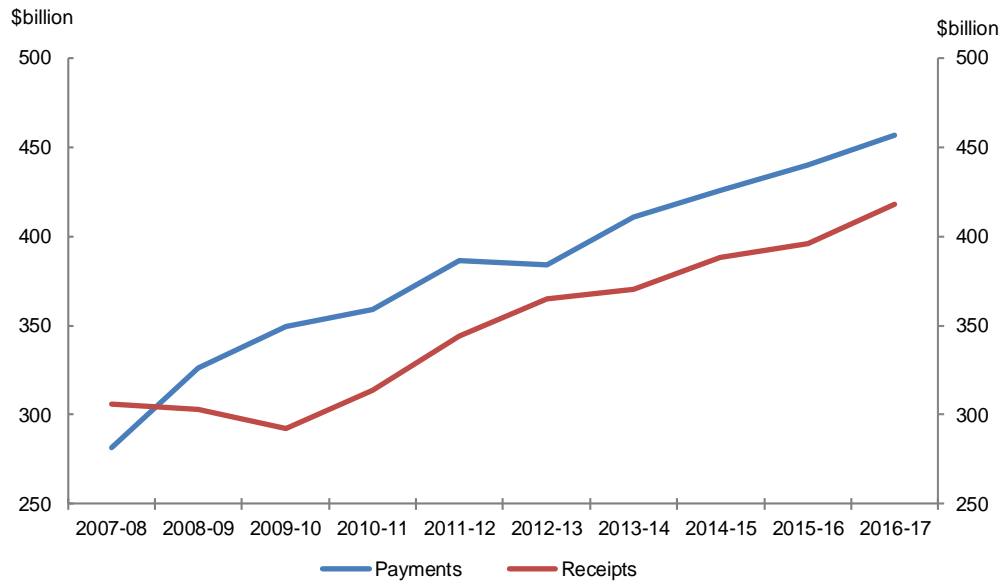


Chart 12 provides the trend of the Australian Government's receipts and payments for operating activities and sales/purchases of non-financial assets since 2007-08.

Chart 12: Receipts and payments – operating and non-financial assets



APPENDIX A

PREVIOUS YEARS

The CFS since 1995-96 are available on the Department of Finance website at: <http://www.finance.gov.au/publications/commonwealth-consolidated-financial-statements>.

The historical series datasets are available in electronic format at: <http://data.gov.au/dataset/australian-government-consolidated-financial-statements-tables-and-data>.

LINKS TO OTHER PUBLICATIONS

The Australian Government publishes a range of information about its projected and actual financial position. Links to some of these documents are set out below. The information in the following documents has been prepared for different purposes and therefore does not form part of the CFS. Further, the documents listed below are not subject to audit.

2016-17 Final Budget Outcome

The 2016-17 Final Budget Outcome (FBO) was prepared in a manner consistent with the *Charter of Budget Honesty Act 1998* (the Charter). The Charter requires that the Government provide the FBO no later than three months after the end of the financial year. Consistent with these requirements, the FBO encompasses Australian Government GGS fiscal outcomes for the 2016-17 financial year and is based on external reporting standards.

The FBO is available on the Australian Government website at: <http://www.budget.gov.au/2016-17/content/fbo/html/index.htm>.

Australian Government Monthly Financial Statements

The Australian Government GGS Monthly Financial Statements are prepared on a basis consistent with the Budget as required under section 47 of the PGPA Act. The statements are prepared in accordance with AASB 1049.

The Australian Government GGS Monthly Financial Statements are available on the Department of Finance website and the Minister for Finance website at: <http://www.finance.gov.au/publications/commonwealth-monthly-financial-statements>; and <http://www.financeminister.gov.au/media-releases/2017>.

The historical series datasets are available in electronic format at: <http://data.gov.au/dataset/australian-government-general-government-sector-monthly-financial-statements-tables-and-data>.

Budget Strategy and Outlook and Mid-Year Economic and Fiscal Outlook

The *Budget Strategy and Outlook – Budget Paper – 2016-17*, the *Mid-Year Economic and Fiscal Outlook 2016-17* and the *Budget Strategy and Outlook – Budget Paper – 2016-17* have been prepared in accordance with the Charter.

The aforementioned Budget papers are available on the Australian Government website at <http://www.budget.gov.au/>.

Tax Expenditures Statement 2016

The Tax Expenditures Statement (TES) provides details of concessions, benefits, incentives and charges provided through the tax system (tax expenditures) to taxpayers by the Australian Government. Information is published on the Treasury website at:

<https://treasury.gov.au/publication/2016-tax-expenditures-statement/>.

**CONSOLIDATED FINANCIAL STATEMENTS, INCLUDING
THE AUSTRALIAN GOVERNMENT AND GENERAL
GOVERNMENT SECTOR FINANCIAL REPORTS**



Auditor-General for Australia



INDEPENDENT AUDITOR'S REPORT

To the Minister for Finance

Opinion

In my opinion, the Consolidated Financial Statements including the Australian Government (Whole of Government) and the General Government Sector Financial Reports for the year ended 30 June 2017:

- (a) comply with Australian Accounting Standards; and
- (b) present fairly the financial position of the Australian Government (Whole of Government) and General Government Sector as at 30 June 2017 and their financial performance and cash flows for the year then ended.

The Consolidated Financial Statements, which I have audited, comprise the following statements as at 30 June 2017 and for the year then ended:

- Statement of Compliance;
- Australian Government operating statement and Australian Government operating statement by sector – including General Government Sector Financial Report;
- Australian Government balance sheet and Australian Government balance sheet by sector – including General Government Sector Financial Report;
- Australian Government cash flow statement and Australian Government cash flow statement by sector – including General Government Sector Financial Report;
- Statement of changes in equity (net worth) and General Government Sector Statement of changes in equity; and
- Notes to the financial statements comprising a summary of significant accounting policies and other explanatory information.

Basis for Opinion

I conducted my audit in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent in accordance with the relevant ethical requirements for financial statement audits. These include the relevant independence requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* to the extent that they are not in conflict with the *Auditor-General Act 1997* (the Code). I have also fulfilled my other responsibilities in accordance with the Code. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Other Information

The Minister for Finance is responsible for the other information. The other information comprises the information included in the Preface and the Commentary on the Financial Statements for the year ended 30 June 2017 but does not include in the Consolidated Financial Statements and my auditor's report thereon.

My opinion on the Consolidated Financial Statements does not cover the other information and accordingly I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

GPO Box 707 CANBERRA ACT 2601
19 National Circuit BARTON ACT
Phone (02) 6203 7300 Fax (02) 6203 7777

Consolidated financial statements

Minister's Responsibility for the Financial Statements

The Minister for Finance is responsible under section 48 of the *Public Governance, Performance and Accountability Act 2013* for the preparation and fair presentation of Consolidated Financial Statements of the Australian Government that comply with Australian Accounting Standards and the rules made under that Act. The Minister for Finance is also responsible for such internal control as the Minister for Finance determines is necessary to enable the preparation and fair presentation of Consolidated Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Minister for Finance is responsible for assessing the going concern basis for the preparation of the Consolidated Financial Statements. The Minister for Finance is also responsible for disclosing matters related to going concern as applicable and using the going concern basis of accounting unless the assessment indicates that it is not appropriate.

Auditor's Responsibilities for the Audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian National Audit Office Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with the Australian National Audit Office Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the Consolidated Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control relevant to the preparation and fair presentation of the Consolidated Financial Statements;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Minister for Finance;
- conclude on the appropriateness of the Minister for Finance's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the going concern basis. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report;
- evaluate the overall presentation, structure and content of the Consolidated Financial Statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation; and
- obtain sufficient appropriate audit evidence regarding the financial information or business activities to express an opinion on the Consolidated Financial Statements. I am responsible for the direction, supervision and performance of the Consolidated Financial Statements audit. I remain solely responsible for my audit opinion.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

Australian National Audit Office



Grant Hehir
Auditor-General

Canberra

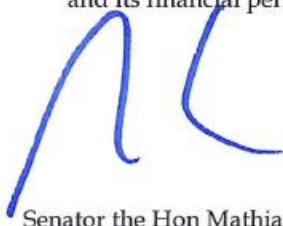
27 November 2017

STATEMENT OF COMPLIANCE

The annual Consolidated Financial Statements of the Australian Government are required by section 48 of the *Public Governance, Performance and Accountability Act 2013*.

In my opinion, the attached annual Consolidated Financial Statements of the Australian Government, which includes the whole of government and general government sector financial statements:

- (a) comply with Australian Accounting Standards; and
- (b) present fairly the Australian Government's financial position as at 30 June 2017 and its financial performance and cash flows for the year then ended.



Senator the Hon Mathias Cormann
Minister for Finance

27 November 2017

Australian Government operating statement
for the year ended 30 June 2017

	Note	2017 \$m	2016 \$m
Revenue from transactions			
Taxation revenue	2A	388,568	369,603
Sales of goods and services	2B	18,404	16,609
Interest income	2C	4,145	4,279
Dividend income	2C	3,556	2,863
Other	2D	10,795	9,430
Total revenue		425,468	402,784
Expenses from transactions			
<i>Gross operating expenses</i>			
Wages and salaries	3A	23,322	22,730
Superannuation	3A	10,431	8,396
Depreciation and amortisation	3B	10,456	9,773
Supply of goods and services	3C	99,060	89,852
Other operating expenses	3A	6,718	7,380
<i>Total gross operating expenses</i>		<i>149,987</i>	<i>138,131</i>
Superannuation interest expense	3A	8,445	9,106
Interest expense	3D	17,652	17,197
Current transfers			
Current grants	3E	134,313	125,339
Subsidy expenses		10,853	11,901
Personal benefits		129,596	131,574
<i>Total current transfers</i>		<i>274,762</i>	<i>268,814</i>
Capital transfers			
Mutually agreed write-downs	3E	1,203	1,193
Other capital grants	3E	10,028	7,589
<i>Total capital transfers</i>		<i>11,231</i>	<i>8,782</i>
Total expenses	3F	462,077	442,030
Net operating balance		(36,609)	(39,246)
Other economic flows - included in operating result			
Net write-downs of assets (including bad and doubtful debts)	4A	(13,420)	(8,806)
Net gains/(losses) from the sale of assets	4B	4,967	6,081
Net foreign exchange gains/(losses)	4C	149	2,247
Net swap interest gains/(losses)	4C	122	(173)
Net fair value gains/(losses)	4C	19,330	(17,725)
Other gains/(losses)	4C	141	(3,226)
Operating result		(25,320)	(60,848)
Other economic flows - other non-owner movements in equity			
Items that will not be reclassified to operating result			
Revaluation of non-financial assets	7	1,705	2,949
Actuarial revaluations of superannuation		45,898	(57,417)
Other economic revaluations		(95)	243
Items that may be reclassified subsequently to operating result			
Revaluation of equity investments	7	(106)	640
Comprehensive result - total change in net worth		22,082	(114,433)
Net operating balance		(36,609)	(39,246)
less Net acquisition of non-financial assets			
Purchases of non-financial assets		19,667	17,560
less Sales of non-financial assets		939	536
less Depreciation and amortisation		10,456	9,773
plus Change in inventories		397	646
plus Other movements in non-financial assets		29	(94)
Total net acquisition of non-financial assets		8,698	7,803
Fiscal balance (Net lending/borrowing)		(45,307)	(47,049)

Consolidated financial statements

Australian Government balance sheet
as at 30 June 2017

	Note	2017 \$m	2016 \$m
Assets			
Financial assets			
Cash and deposits		6,283	5,712
Advances paid	5A	47,989	48,194
Other receivables and accrued revenue	5A	46,705	43,544
Investments, loans and placements	5B	320,878	286,787
Equity investments	5C	44,138	42,912
<i>Total financial assets</i>		<i>465,993</i>	<i>427,149</i>
Non-financial assets			
Land	5D	12,237	11,738
Buildings	5D	28,112	27,779
Specialist military equipment	5D	58,573	56,217
Other plant, equipment and infrastructure	5D	42,475	36,385
Intangibles	5D	10,360	9,831
Investment property	5D	281	377
Inventories	5E	8,689	8,711
Heritage and cultural assets	5D	11,630	11,462
Other non-financial assets	5F	4,280	4,865
<i>Total non-financial assets</i>		<i>176,637</i>	<i>167,365</i>
Total assets	5G	642,630	594,514
Liabilities			
Interest bearing liabilities			
Deposits held	6A	34,761	30,740
Government securities	6B	535,445	480,757
Loans	6C	14,100	14,661
Other borrowings	6D	7,515	6,029
Other interest bearing liabilities	6E	10,885	15,051
<i>Total interest bearing liabilities</i>		<i>602,706</i>	<i>547,238</i>
Provisions and payables			
Superannuation liability	6F	279,799	314,958
Other employee liabilities	6F	21,303	21,558
Suppliers payable	6G	10,351	9,126
Personal benefits payable	6G	3,086	3,820
Subsidies payable	6G	549	539
Grants payable	6G	3,924	2,659
Australian currency on issue	6H	73,623	70,209
Other payables	6G	4,049	2,378
Other provisions	6H	34,505	35,604
<i>Total provisions and payables</i>		<i>431,189</i>	<i>460,851</i>
Total liabilities		1,033,895	1,008,089
Net worth			
Accumulated results		(467,946)	(483,496)
Reserves		76,681	69,921
Net worth		(391,265)	(413,575)
Current liabilities		284,031	103,272
Non-current liabilities		749,864	904,817
Total liabilities by maturity		1,033,895	1,008,089
Current assets		399,335	358,583
Non-current assets		243,295	235,931
Total assets by maturity		642,630	594,514

Australian Government cash flow statement
for the year ended 30 June 2017

	Note	2017 \$m	2016 \$m
OPERATING ACTIVITIES			
Operating cash received			
Taxes received		379,239	362,494
Receipts from sales of goods and services		18,182	17,543
Interest receipts		4,061	4,377
Dividend receipts		3,500	2,890
Other receipts		10,349	8,393
Total cash received		415,331	395,697
Operating cash used			
Payments for employees		(32,934)	(31,610)
Payments for goods and services		(97,343)	(91,303)
Grants and subsidies paid		(155,717)	(145,297)
Interest paid		(15,415)	(15,172)
Personal benefits		(132,377)	(133,822)
Other payments		(5,426)	(6,334)
Total cash used		(439,212)	(423,538)
Net cash flows from operating activities	8	(23,881)	(27,841)
INVESTING ACTIVITIES			
Investments in non-financial assets			
Sales of non-financial assets		2,340	466
Purchases of non-financial assets		(17,339)	(16,208)
Net investments in non-financial assets		(14,999)	(15,742)
Investments in financial assets for policy purposes			
Receipts from policy investments		3,679	4,360
Payments for policy investments		(9,712)	(10,054)
Net investments in financial assets for policy purposes		(6,033)	(5,694)
Investments in financial assets for liquidity purposes		(37,307)	(18,056)
Net cash from investing activities		(58,339)	(39,492)
FINANCING ACTIVITIES			
Net financing cash received			
Borrowings		75,280	61,404
Other financing		11,347	6,822
Net cash received		86,627	68,226
Net financing cash used			
Other financing		(3,836)	(3)
Net cash used		(3,836)	(3)
Net cash flows from financing activities		82,791	68,223
Net (decrease)/increase in cash held		571	890
Cash at beginning of year		5,712	4,822
Cash at end of year		6,283	5,712
Key fiscal aggregate			
Net cash flows from operating activities		(23,881)	(27,841)
Net cash flows from investments in non-financial assets		(14,999)	(15,742)
Cash surplus/(deficit)		(38,880)	(43,583)
Finance leases and similar arrangements		(1,350)	(693)
GFS cash surplus/(deficit)		(40,230)	(44,276)

Statement of changes in equity (net worth)
for the year ended 30 June 2017

Item	Reserves								Total Net Worth \$m
	Accumulated results \$m	Asset revaluation reserve \$m	Foreign currency translation reserve \$m	Investments reserve \$m	Statutory funds \$m	Other reserves \$m	Total reserves \$m	Contributed equity \$m	
Australian Government									
Adjusted opening balance as at 1 July 2015(a)	(367,063)	46,468	(105)	6,923	7,124	7,511	67,921	-	(299,142)
Comprehensive result - Change in net worth	(116,816)	3,535	160	(1,304)	-	(8)	2,383	-	(114,433)
Transfers to/(from)/between reserves	383	19	-	-	1,390	(1,792)	(383)	-	-
Net worth as at 30 June 2016	(483,496)	50,022	55	5,619	8,514	5,711	69,921	-	(413,575)
Non-material changes in accounting policy and errors	730	(512)	1	-	-	9	(502)	-	228
Adjusted opening balance as at 1 July 2016	(482,766)	49,510	56	5,619	8,514	5,720	69,419	-	(413,347)
Comprehensive result - Change in net worth	20,323	1,262	(12)	523	-	(14)	1,759	-	22,082
Transfers to/(from)/between reserves	(5,503)	(63)	(1)	7,616	-	(2,049)	5,503	-	-
Net worth as at 30 June 2017	(467,946)	50,709	43	13,758	8,514	3,657	76,681	-	(391,265)

(a) The opening balance as at 1 July 2015 has been restated by \$190 million for a change in the percentage used to calculate the taxes receivable credit amendment allowance and provision for tax refunds.

The above statements should be read in conjunction with the accompanying notes.

SECTOR STATEMENTS

Australian Government operating statement by sector — including General Government Sector Financial Report
for the year ended 30 June 2017

	Note	General Government		Public non-financial corporations		Public financial corporations		Eliminations and netting(a)		Australian Government	
		2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
		\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Revenue from transactions											
Taxation revenue	2A	388,641	369,598	-	-	-	-	(73)	5	388,568	369,603
Sales of goods and services	2B	8,230	7,089	10,678	9,873	698	725	(1,202)	(1,078)	18,404	16,609
Interest income	2C	2,992	2,931	55	54	2,187	2,383	(1,089)	(1,089)	4,145	4,279
Dividend income	2C	4,998	6,240	-	-	77	40	(1,519)	(3,417)	3,556	2,863
Other	2D	10,863	9,457	161	116	147	148	(376)	(291)	10,795	9,430
Total revenue		415,724	395,315	10,894	10,043	3,109	3,296	(4,259)	(5,870)	425,468	402,784
Expenses from transactions											
<i>Gross operating expenses</i>											
Wages and salaries	3A	19,059	18,675	4,085	3,882	178	174	-	(1)	23,322	22,730
Superannuation	3A	9,831	7,854	509	482	98	73	(7)	(13)	10,431	8,396
Depreciation and amortisation	3B	8,214	8,132	2,186	1,596	56	44	-	1	10,456	9,773
Supply of goods and services	3C	93,038	85,120	6,886	5,525	438	350	(1,302)	(1,143)	99,060	89,852
Other operating expenses	3A	5,906	6,332	613	772	207	278	(8)	(2)	6,718	7,380
<i>Total gross operating expenses</i>		<i>136,048</i>	<i>126,113</i>	<i>14,279</i>	<i>12,257</i>	<i>977</i>	<i>919</i>	<i>(1,317)</i>	<i>(1,158)</i>	<i>149,987</i>	<i>138,131</i>
Superannuation interest expense	3A	8,445	9,106	-	-	-	-	-	-	8,445	9,106
Interest expenses	3D	17,059	16,673	526	441	1,154	1,176	(1,087)	(1,093)	17,652	17,197
Current transfers											
Current grants	3E	134,314	125,410	-	-	-	-	(1)	(71)	134,313	125,339
Subsidy expenses		11,002	12,053	-	-	-	-	(149)	(152)	10,853	11,901
Personal benefits		129,596	131,574	-	-	-	-	-	-	129,596	131,574
Tax expenses		-	-	99	55	1	2	(100)	(57)	-	-
<i>Total current transfers</i>		<i>274,912</i>	<i>269,037</i>	<i>99</i>	<i>55</i>	<i>1</i>	<i>2</i>	<i>(250)</i>	<i>(280)</i>	<i>274,762</i>	<i>268,814</i>
Capital transfers											
Mutually agreed write-downs	3E	1,203	1,193	-	-	-	-	-	-	1,203	1,193
Other capital grants	3E	10,140	7,589	-	-	-	-	(112)	-	10,028	7,589
<i>Total capital transfers</i>		<i>11,343</i>	<i>8,782</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>(112)</i>	<i>-</i>	<i>11,231</i>	<i>8,782</i>
Total expenses	3F	447,807	429,711	14,904	12,753	2,132	2,097	(2,766)	(2,531)	462,077	442,030
Net operating balance		(32,083)	(34,396)	(4,010)	(2,710)	977	1,199	(1,493)	(3,339)	(36,609)	(39,246)

(a) The eliminations and netting column includes the elimination of inter-sector transactions and the netting of gains and losses across sectors.

Australian Government operating statement by sector — including General Government Sector Financial Report (continued)
for the year ended 30 June 2017

Sector statements

	Note	General Government		Public non-financial corporations		Public financial corporations		Eliminations and netting(a)		Australian Government	
		2017 \$m	2016 \$m	2017 \$m	2016 \$m	2017 \$m	2016 \$m	2017 \$m	2016 \$m	2017 \$m	2016 \$m
Other economic flows - included in operating result											
Net write-downs of assets	4A	(13,387)	(8,747)	(31)	(61)	(4)	(6)	2	8	(13,420)	(8,806)
Net gains/(losses) from the sale of assets	4B	5,515	6,222	22	14	(569)	(156)	(1)	1	4,967	6,081
Net foreign exchange gains/(losses)	4C	1,439	429	(4)	(3)	(1,286)	1,820	-	1	149	2,247
Net swap interest gains/(losses)	4C	98	(205)	(6)	5	30	28	-	(1)	122	(173)
Net fair value gains/(losses)	4C	19,176	(17,775)	95	31	60	19	(1)	-	19,330	(17,725)
Other gains/(losses)	4C	149	(3,196)	(7)	(30)	-	-	(1)	-	141	(3,226)
Operating result		(19,093)	(57,668)	(3,941)	(2,754)	(792)	2,904	(1,494)	(3,330)	(25,320)	(60,848)
Other economic flows - through equity											
Will not be reclassified to operating result											
Revaluation of non-financial assets	7	1,488	2,866	143	37	73	45	1	1	1,705	2,949
Actuarial revaluations of superannuation		44,904	(56,913)	569	(162)	425	(342)	-	-	45,898	(57,417)
Other economic revaluations		(67)	267	(119)	75	(1)	-	92	(99)	(95)	243
May be reclassified to operating result											
Revaluation of equity investments	7	(5,324)	(2,970)	-	-	(420)	663	5,638	2,947	(106)	640
Comprehensive result		21,908	(114,418)	(3,348)	(2,804)	(715)	3,270	4,237	(481)	22,082	(114,433)
Net operating balance		(32,083)	(34,396)	(4,010)	(2,710)	977	1,199	(1,493)	(3,339)	(36,609)	(39,246)
less Net acquisition of non-financial assets											
Purchases of non-financial assets		11,545	11,141	8,012	6,324	110	96	-	(1)	19,667	17,560
less Sales of non-financial assets		873	477	64	59	2	-	-	-	939	536
less Depreciation and amortisation		8,214	8,132	2,186	1,597	56	44	-	-	10,456	9,773
plus Change in inventories		392	413	12	20	(7)	17	-	196	397	646
plus Other movements in non-financial assets		27	(95)	2	1	-	-	-	-	29	(94)
Total net acquisition of non-financial assets		2,877	2,850	5,776	4,689	45	69	-	195	8,698	7,803
Fiscal balance (Net lending/borrowing)		(34,960)	(37,246)	(9,786)	(7,399)	932	1,130	(1,493)	(3,534)	(45,307)	(47,049)

(a) The eliminations and netting column includes the elimination of inter-sector transactions and the netting of gains and losses across sectors.

Australian Government balance sheet by sector — including General Government Sector Financial Report
as at 30 June 2017

	Note	General Government		Public non-financial corporations		Public financial corporations		Eliminations(a)		Australian Government	
		2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
		\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Assets											
Financial assets											
Cash and deposits		5,140	3,638	2,184	2,558	520	413	(1,561)	(897)	6,283	5,712
Advances paid	5A	46,814	46,898	12	11	2,245	2,244	(1,082)	(959)	47,989	48,194
Other receivables and accrued revenue	5A	46,699	45,355	1,579	1,353	67	252	(1,640)	(3,416)	46,705	43,544
Investments, loans and placements	5B	193,252	149,994	733	523	195,326	168,809	(68,433)	(32,539)	320,878	286,787
Equity investments	5C	89,990	87,230	403	2	416	415	(46,671)	(44,735)	44,138	42,912
Total financial assets		381,895	333,115	4,911	4,447	198,574	172,133	(119,387)	(82,546)	465,993	427,149
Non-financial assets											
Land	5D	11,002	10,620	1,033	956	203	161	(1)	1	12,237	11,738
Buildings	5D	25,692	25,547	2,015	1,883	405	350	-	(1)	28,112	27,779
Specialist military equipment	5D	58,573	56,217	-	-	-	-	-	-	58,573	56,217
Other plant, equipment and infrastructure	5D	15,013	14,281	27,262	21,907	200	197	-	-	42,475	36,385
Intangibles	5D	7,452	7,281	2,827	2,493	83	58	(2)	(1)	10,360	9,831
Investment property	5D	112	164	169	213	-	-	-	-	281	377
Inventories	5E	8,548	8,567	123	118	19	26	(1)	-	8,689	8,711
Heritage and cultural assets	5D	11,630	11,462	-	-	-	-	-	-	11,630	11,462
Tax assets		-	-	795	829	5	5	(800)	(834)	-	-
Other non-financial assets	5F	3,856	4,638	504	276	41	40	(121)	(89)	4,280	4,865
Total non-financial assets		141,878	138,777	34,728	28,675	956	837	(925)	(924)	176,637	167,365
Total assets	5G	523,773	471,892	39,639	33,122	199,530	172,970	(120,312)	(83,470)	642,630	594,514
Liabilities											
Interest bearing liabilities											
Deposits held	6A	218	217	6	4	92,890	61,211	(58,353)	(30,692)	34,761	30,740
Government securities	6B	547,254	483,361	-	-	-	-	(11,809)	(2,604)	535,445	480,757
Loans	6C	10,179	10,351	2,338	2,664	2,437	2,599	(854)	(953)	14,100	14,661
Other borrowings	6D	1,618	1,607	5,896	4,418	-	-	1	4	7,515	6,029
Other interest bearing liabilities	6E	6,359	6,473	8	7	4,518	8,571	-	-	10,885	15,051
Total interest bearing liabilities		565,628	502,009	8,248	7,093	99,845	72,381	(71,015)	(34,245)	602,706	547,238

(a) Comprises the elimination of inter-sector balances.

Australian Government balance sheet by sector — including General Government Sector Financial Report (continued)
as at 30 June 2017

	Note	General Government		Public non-financial corporations		Public financial corporations		Eliminations(a)		Australian Government	
		2017 \$m	2016 \$m	2017 \$m	2016 \$m	2017 \$m	2016 \$m	2017 \$m	2016 \$m	2017 \$m	2016 \$m
Provisions and payables											
Superannuation liability	6F	279,459	314,228	20	46	320	685	-	(1)	279,799	314,958
Other employee liabilities	6F	18,134	18,302	1,714	1,797	1,456	1,457	(1)	2	21,303	21,558
Suppliers payable	6G	6,279	6,250	4,127	2,907	119	114	(174)	(145)	10,351	9,126
Personal benefits payable	6G	3,086	3,820	-	-	-	-	-	-	3,086	3,820
Subsidies payable	6G	549	539	-	-	-	-	-	-	549	539
Grants payable	6G	3,922	2,659	-	-	-	-	2	-	3,924	2,659
Australian currency on issue	6H	-	-	-	-	73,623	70,209	-	-	73,623	70,209
Tax liabilities		-	-	655	515	-	1	(655)	(516)	-	-
Other payables	6G	3,582	1,926	591	494	1,411	3,340	(1,535)	(3,382)	4,049	2,378
Other provisions	6H	34,029	35,222	476	380	-	1	-	1	34,505	35,604
Total provisions and payables		349,040	382,946	7,583	6,139	76,929	75,807	(2,363)	(4,041)	431,189	460,851
Total liabilities		914,668	884,955	15,831	13,232	176,774	148,188	(73,378)	(38,286)	1,033,895	1,008,089
Net worth											
Accumulated results		(455,523)	(472,749)	(10,272)	(6,557)	89	(286)	(2,240)	(3,904)	(467,946)	(483,496)
Reserves		64,628	59,686	2,964	2,770	22,381	24,822	(13,292)	(17,357)	76,681	69,921
Contributed equity		-	-	31,116	23,677	286	246	(31,402)	(23,923)	-	-
Net worth		(390,895)	(413,063)	23,808	19,890	22,756	24,782	(46,934)	(45,184)	(391,265)	(413,575)
Current liabilities		249,720	60,546	5,987	5,069	100,882	75,195	(72,558)	(37,538)	284,031	103,272
Non-current liabilities		664,948	824,409	9,844	8,163	75,892	72,993	(820)	(748)	749,864	904,817
Total liabilities by maturity		914,668	884,955	15,831	13,232	176,774	148,188	(73,378)	(38,286)	1,033,895	1,008,089
Current assets		280,007	235,609	4,383	4,636	187,551	155,869	(72,606)	(37,531)	399,335	358,583
Non-current assets		243,766	236,283	35,256	28,486	11,979	17,101	(47,706)	(45,939)	243,295	235,931
Total assets by maturity		523,773	471,892	39,639	33,122	199,530	172,970	(120,312)	(83,470)	642,630	594,514

(a) Comprises the elimination of inter-sector balances.

Australian Government cash flow statement by sector — including General Government Sector Financial Report
for the year ended 30 June 2017

	General Government		Public non-financial corporations		Public financial corporations		Eliminations and netting(a)		Australian Government	
	2017 \$m	2016 \$m	2017 \$m	2016 \$m	2017 \$m	2016 \$m	2017 \$m	2016 \$m	2017 \$m	2016 \$m
OPERATING ACTIVITIES										
Cash received										
Taxes received	379,271	362,492	-	-	-	-	(32)	2	379,239	362,494
Receipts from sales of goods and services	8,050	7,062	11,559	10,882	620	628	(2,047)	(1,029)	18,182	17,543
Interest receipts	2,925	2,936	53	51	1,965	2,453	(882)	(1,063)	4,061	4,377
Dividend receipts	6,874	5,540	-	-	79	43	(3,453)	(2,693)	3,500	2,890
GST receipts	-	-	650	576	26	26	(676)	(602)	-	-
Other receipts	10,466	8,480	85	46	157	161	(359)	(294)	10,349	8,393
Total cash received	407,586	386,510	12,347	11,555	2,847	3,311	(7,449)	(5,679)	415,331	395,697
Cash used										
Taxes paid	-	-	(10)	(16)	(1)	-	11	16	-	-
Payments for employees	(27,148)	(27,122)	(5,130)	(4,293)	(656)	(207)	-	12	(32,934)	(31,610)
Payments for goods and services	(91,810)	(85,595)	(7,708)	(6,737)	(358)	(242)	2,533	1,271	(97,343)	(91,303)
Grants and subsidies paid	(155,981)	(145,386)	1	-	-	(166)	263	255	(155,717)	(145,297)
Interest paid	(15,290)	(14,977)	(64)	(56)	(1,164)	(1,198)	1,103	1,059	(15,415)	(15,172)
Personal benefits	(132,377)	(133,822)	-	-	-	-	-	-	(132,377)	(133,822)
GST paid	-	-	(272)	(414)	(12)	(12)	284	426	-	-
Other payments	(5,632)	(5,921)	(39)	(347)	234	(59)	11	(7)	(5,426)	(6,334)
Total cash used	(428,238)	(412,823)	(13,222)	(11,863)	(1,957)	(1,884)	4,205	3,032	(439,212)	(423,538)
Net cash from operating activities	(20,652)	(26,313)	(875)	(308)	890	1,427	(3,244)	(2,647)	(23,881)	(27,841)
INVESTING ACTIVITIES										
Investments in non-financial assets										
Sales of non-financial assets	2,282	414	58	52	-	-	-	-	2,340	466
Purchases of non-financial assets	(11,079)	(10,341)	(6,153)	(5,770)	(107)	(97)	-	-	(17,339)	(16,208)
Net cash from non-financial assets	(8,797)	(9,927)	(6,095)	(5,718)	(107)	(97)	-	-	(14,999)	(15,742)

(a) The eliminations and netting column includes the elimination of inter-sector transactions and the netting of certain cash flows across sectors.

Australian Government cash flow statement by sector — including General Government Sector Financial Report (continued)
for the year ended 30 June 2017

Sector statements

	General Government		Public non-financial corporations		Public financial corporations		Eliminations and netting(a)		Australian Government	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
INVESTING ACTIVITIES										
Investments in financial assets for policy purposes										
Receipts from policy investments	3,614	4,300	-	-	125	-	(60)	60	3,679	4,360
Payments for policy investments	(17,115)	(16,984)	-	-	-	(35)	7,403	6,965	(9,712)	(10,054)
Net cash from policy investments	(13,501)	(12,684)	-	-	125	(35)	7,343	7,025	(6,033)	(5,694)
Investments in financial assets for liquidity purposes										
	(37,318)	(5,255)	13	(146)	(35,992)	(4,406)	35,990	(8,249)	(37,307)	(18,056)
Net cash from investing activities	(59,616)	(27,866)	(6,082)	(5,864)	(35,974)	(4,538)	43,333	(1,224)	(58,339)	(39,492)
FINANCING ACTIVITIES										
Cash flows from financing activities										
Net cash received										
Borrowings	84,908	57,102	301	-	-	887	(9,929)	3,415	75,280	61,404
Contributed equity	-	-	7,386	7,158	10	-	(7,396)	(7,158)	-	-
Other financing	365	-	30	-	38,640	4,729	(27,688)	2,093	11,347	6,822
Net cash received	85,273	57,102	7,717	7,158	38,650	5,616	(45,013)	(1,650)	86,627	68,226
Net cash used										
Distributions paid	(3)	(3)	(169)	(120)	(3,285)	(2,572)	3,454	2,692	(3)	(3)
Other financing	(3,500)	(2,438)	(965)	(350)	(174)	-	806	2,788	(3,833)	-
Net cash used	(3,503)	(2,441)	(1,134)	(470)	(3,459)	(2,572)	4,260	5,480	(3,836)	(3)
Net cash from financing activities	81,770	54,661	6,583	6,688	35,191	3,044	(40,753)	3,830	82,791	68,223
Net increase/(decrease) in cash	1,502	482	(374)	516	107	(67)	(664)	(41)	571	890
Cash at beginning of year	3,638	3,156	2,558	2,042	413	480	(897)	(856)	5,712	4,822
Cash at end of year	5,140	3,638	2,184	2,558	520	413	(1,561)	(897)	6,283	5,712
Key fiscal aggregate										
Net cash flows from operating activities	(20,652)	(26,313)	(875)	(308)	890	1,427	(3,244)	(2,647)	(23,881)	(27,841)
Net cash flows from investments in non-financial assets	(8,797)	(9,927)	(6,095)	(5,718)	(107)	(97)	-	-	(14,999)	(15,742)
Cash surplus/(deficit)	(29,449)	(36,240)	(6,970)	(6,026)	783	1,330	(3,244)	(2,647)	(38,880)	(43,583)
Finance leases and similar arrangements	(58)	(165)	(1,292)	(528)	-	-	-	-	(1,350)	(693)
GFS cash surplus/(deficit)	(29,507)	(36,405)	(8,262)	(6,554)	783	1,330	(3,244)	(2,647)	(40,230)	(44,276)

(a) The eliminations and netting column includes the elimination of inter-sector transactions and the netting of certain cash flows across sectors.

Statement of changes in equity (net worth)
for the year ended 30 June 2017

Item	Reserves								Total Net Worth \$m
	Accumulated results \$m	Asset revaluation reserve \$m	Foreign currency translation reserve \$m	Investments reserve \$m	Statutory funds \$m	Other reserves \$m	Total reserves \$m	Contributed equity \$m	
General Government									
Adjusted opening balance as at 1 July 2015 (a)	(359,650)	40,449	(164)	20,608	-	112	61,005	-	(298,645)
Comprehensive result - Total change in net worth	(113,133)	2,788	196	(4,251)	-	(18)	(1,285)	-	(114,418)
Transfers to/(from)/between reserves	34	21	-	-	-	(55)	(34)	-	-
Net worth as at 30 June 2016	(472,749)	43,258	32	16,357	-	39	59,686	-	(413,063)
Non-material changes in accounting policy and errors	767	(509)	2	(1)	-	1	(507)	-	260
Adjusted opening balance as at 1 July 2016	(471,982)	42,749	34	16,356	-	40	59,179	-	(412,803)
Comprehensive result - Total change in net worth	25,552	1,467	7	(5,116)	-	(2)	(3,644)	-	21,908
Transfers to/(from)/between reserves	(9,093)	(57)	-	9,150	-	-	9,093	-	-
Net worth as at 30 June 2017	(455,523)	44,159	41	20,390	-	38	64,628	-	(390,895)

(a) The opening balance as at 1 July 2015 has been restated by \$190 million for a change in the percentage used to calculate the taxes receivable credit amendment allowance and provision for tax refunds

Statement of changes in equity (net worth) (continued)
for the year ended 30 June 2017

Item	Reserves							Contributed equity \$m	Total Net Worth \$m
	Accumulated results \$m	Asset revaluation reserve \$m	Foreign currency translation reserve \$m	Investments reserve \$m	Statutory funds \$m	Other reserves \$m	Total reserves \$m		
Public non-financial corporations									
Adjusted opening balance as at 1 July 2015	(3,555)	2,427	58	-	-	187	2,672	16,542	15,659
Comprehensive result - Total change in net worth	(2,855)	92	(36)	-	-	18	74	(23)	(2,804)
Dividends provided for or paid	(123)	-	-	-	-	-	-	-	(123)
Transfers to/(from)/between reserves	(24)	(2)	-	-	-	26	24	-	-
Contribution/(Distribution) of Equity	-	-	-	-	-	-	-	7,158	7,158
Net worth as at 30 June 2016	(6,557)	2,517	22	-	-	231	2,770	23,677	19,890
Non-material changes in accounting policy and errors	(4)	-	-	-	-	(1)	(1)	-	(5)
Adjusted opening balance as at 1 July 2016	(6,561)	2,517	22	-	-	230	2,769	23,677	19,885
Comprehensive result - Total change in net worth	(3,505)	181	(20)	-	-	(4)	157	-	(3,348)
Dividends provided for or paid	(168)	-	-	-	-	-	-	-	(168)
Transfers to/(from)/between reserves	(38)	(2)	-	-	-	40	38	-	-
Contribution/(Distribution) of Equity	-	-	-	-	-	-	-	7,439	7,439
Net worth as at 30 June 2017	(10,272)	2,696	2	-	-	266	2,964	31,116	23,808

Sector statements

Statement of changes in equity (net worth) (continued)
for the year ended 30 June 2017

For the year ended 30 June 2017									
Item	Reserves								Total Net Worth \$m
	Accumulated results \$m	Asset revaluation reserve \$m	Foreign currency translation reserve \$m	Investments reserve \$m	Statutory funds \$m	Other reserves \$m	Total reserves \$m	Contributed equity \$m	
Public financial corporations									
Adjusted opening balance as at 1 July 2015	72	4,430	-	-	12,729	7,328	24,487	246	24,805
Comprehensive result - Total change in net worth	2,562	708	-	-	-	-	708	-	3,270
Dividends provided for or paid	(3,293)	-	-	-	-	-	-	-	(3,293)
Transfers to/(from)/between reserves	373	-	-	-	1,390	(1,763)	(373)	-	-
Contribution/(Distribution) of Equity	-	-	-	-	-	-	-	-	-
Net worth as at 30 June 2016	(286)	5,138	-	-	14,119	5,565	24,822	246	24,782
Non-material changes in accounting policy and errors	(2)	-	-	-	-	-	-	30	28
Adjusted opening balance as at 1 July 2016	(288)	5,138	-	-	14,119	5,565	24,822	276	24,810
Comprehensive result - Total change in net worth	(367)	(348)	-	-	-	-	(348)	-	(715)
Dividends provided for or paid	(1,349)	-	-	-	-	-	-	-	(1,349)
Transfers to/(from)/between reserves	2,093	(4)	-	-	-	(2,089)	(2,093)	-	-
Contribution/(Distribution) of Equity	-	-	-	-	-	-	-	10	10
Net worth as at 30 June 2017	89	4,786	-	-	14,119	3,476	22,381	286	22,756

The above statements should be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS

INDEX TO NOTES

NOTE 1: BASIS OF FINANCIAL STATEMENTS PREPARATION	49
NOTE 2: REVENUE FROM TRANSACTIONS	57
Note 2A: Taxation revenue	58
Note 2B: Sales of goods and services	60
Note 2C: Interest and dividend income	61
Note 2D: Other sources of non-taxation revenue	62
NOTE 3: EXPENSES FROM TRANSACTIONS.....	63
Note 3A: Employee and superannuation expenses	64
Note 3B: Depreciation and amortisation expenses.....	64
Note 3C: Supply of goods and services	65
Note 3D: Interest expense	66
Note 3E: Grants expense.....	67
Note 3F: Expenses by function	68
NOTE 4: OTHER ECONOMIC FLOWS	70
Note 4A: Net write-down of assets (including bad and doubtful debts)	71
Note 4B: Net gains/(losses) from the sale of assets	72
Note 4C: Other gains/(losses)	72
NOTE 5: ASSETS.....	74
Note 5A: Advances paid and receivables	76
Note 5B: Investments, loans and placements.....	80
Note 5C: Equity investments.....	83
Note 5D: Land and buildings, plant, equipment and infrastructure, heritage and cultural assets and intangibles	86
Note 5E: Inventories.....	93
Note 5F: Other non-financial assets.....	94
Note 5G: Assets by function.....	94
NOTE 6: LIABILITIES.....	95
Note 6A: Deposit liabilities	96
Note 6B: Government securities	97
Note 6C: Loans	98
Note 6D: Other borrowings	99
Note 6E: Other interest bearing liabilities.....	100
Note 6F: Employee benefits.....	101
Note 6G: Other payables	103
Note 6H: Other provisions	105
NOTE 7: NET REVALUATION INCREASES/(DECREASES)	107
NOTE 8: RECONCILIATION OF CASH.....	107

Notes to the financial statements

NOTE 9: RISKS	109
Note 9A: Contingencies	109
Note 9B: Financial instruments	115
Note 9C: Defined benefit superannuations plans	124
NOTE 10A: MINISTERIAL REMUNERATION	133
NOTE 10B: RELATED PARTY DISCLOSURES	134
NOTE 11: EVENTS OCCURRING AFTER BALANCE DATE	134
NOTE 12: RECONCILIATIONS AND EXPLANATIONS	135
Note 12A: Reconciliations to ABS GFS measures	135
Note 12B: Reconciliation to original budget	138
Note 12C: Glossary of key fiscal aggregates	146
NOTE 13: AUDIT EXPENSES	148
NOTE 14: LIST OF AUSTRALIAN GOVERNMENT REPORTING ENTITIES.....	149

Note 1: Basis of financial statements preparation

1.1 Purpose

The purpose of this note is to outline the basis on which the financial statements for the Australian Government (whole of government) and the general government sector (GGS) have been prepared.

Significant accounting policies that are relevant to understanding the financial statements are provided throughout the notes to the financial statements.

Except as otherwise noted, the accounting policies detailed in this note and throughout the notes to the financial statements are applicable at both the whole of government level and for the GGS.

1.2 Statement of compliance

The Australian Government Consolidated Financial Statements (CFS) are required by section 48 of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act).

The CFS are general purpose financial statements that have been prepared for the whole of government and the GGS in accordance with Australian Accounting Standards (AAS), including AASB 1049 *Whole of Government and General Government Sector Financial Reporting* (AASB 1049).

The GGS financial statements are included in the CFS and can be found in the Sector statements and the Notes to the financial statements.

1.3 Basis of accounting

The purpose of the CFS is to provide users with information about the stewardship by the Australian Government and accountability for the resources entrusted to it; information about the financial position, performance and cash flows of the Australian Government; and information that facilitates assessment of the macro-economic impact of the Australian Government.

The principles and rules in the Australian Bureau of Statistics *Australian System of Government Finance Statistics: Concepts, Sources and Methods 2005 – ABS Catalogue No. 5514.0* (ABS GFS Manual) have been applied in the production of these financial statements, except in instances in which their application would conflict with AAS.

The 2016-17 financial statements for the whole of government and the GGS have been prepared on the basis of the ABS GFS Manual effective as at 1 July 2015.

Where the key fiscal aggregates presented on the face of the financial statements are materially different to those measured in accordance with the applied ABS GFS Manual, a reconciliation between the two measures has been provided (refer Note 12A).

Notes to the financial statements

The CFS has been prepared on an accrual basis and is presented in Australian dollars.

1.4 New Australian Accounting Standards

Adoption of new Australian Accounting Standard requirements

During 2016-17, the Australian Government adopted all applicable AAS that became effective during the year. The application of new accounting standards did not materially impact the operations of the Australian Government.

The scope of AASB 124 *Related Party Disclosures* has been extended to include not-for-profit public sector entities from the 2016-17 financial year. Refer Notes 10A and 10B for related-party disclosures applicable to the Australian Government.

Future Australian Accounting Standards requirements

The following new or amended standards, interpretations and ABS GFS requirements are relevant to Australian Government operations and are effective for future reporting periods:

Reference	Nature and impact of change	When
ABS GFS Manual 2015	The ABS GFS Manual has been updated to incorporate the changes sought by the International Monetary Fund (IMF) as outlined in its Government Finance Statistics Manual 2014 (IMF GFSM 2014). The changes may impact upon the classification of certain items and will change the reconciliation to GFS measures disclosed in Note 12A. The ABS GFS Manual 2015 will change the treatment of subscriptions to the International Development Association (IDA) and the Asian Development Fund (ADF). These subscriptions will be classified as equity investments instead of advances paid and measured on a fair value basis (consistent with the CFS) instead of nominal basis. The revised treatment will remove this GFS reconciliation item.	2017-18
AASB 9 <i>Financial Instruments</i> (AASB 9)	AASB 9 incorporates new principles for the classification and measurement of financial assets and liabilities, and changes to general hedge accounting. It is expected that the new standard will require a change in classification between financial assets currently measured at amortised cost, assets measured at fair value through other comprehensive income, and assets measured at fair value through profit and loss. For assets classified at amortised cost or at fair value through other comprehensive income an allowance for expected credit losses needs to be considered. The financial impact of these changes are yet to be quantified. The changes to hedge accounting are not expected to materially impact the Australian Government.	2018-19

Reference	Nature and impact of change	When
AASB 15 <i>Revenue from Contracts with Customers</i> (AASB 15) and AASB 1058 <i>Income for Not-for-Profit Entities</i> (AASB 1058)	<p>AASB 15 introduces a single model for the recognition of revenue based on when control of goods and services transfers to a customer. The core principle of AASB 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. AASB 1058 will be relevant to Australian Government not-for-profit entities in circumstances where AASB 15 does not apply. AASB 1058 will apply to transactions where the consideration to acquire an asset is significantly less than fair value principally to enable the Australian Government entity to further its objectives, and where volunteer services are received.</p> <p>The new requirements are expected to result in a better matching of income and related expenses as income recognition will be deferred when there is a performance obligation or any other liability. It is expected that the new requirements will also result in the deferral of certain grant expenses. The financial impact of these changes are yet to be quantified.</p> <p>AASB 1004 <i>Contributions</i> will continue to apply to equity contributions and to restructures within the Australian Government.</p>	2019-20
AASB 16 <i>Leases</i> (AASB 16)	<p>AASB 16 will primarily affect the treatment of operating leases where Australian Government entities are lessees. The new standard will result in the recognition of almost all leases on the balance sheet by removing the current distinction between operating and financing leases. The new standard requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for almost all lease contracts.</p> <p>Under AASB 16, the present value of operating lease commitments reported in Note 3C would be shown as a liability on the balance sheet together with an asset representing the right-of-use. In the operating statement, the ongoing classification of what is currently predominantly presented as supplier expenses will be split between amortisation and interest expense.</p>	2019-20

Other than the above, current pronouncements related to future reporting periods are not expected to materially impact on future reporting periods or will not apply to the operations of the Australian Government.

1.5 Prior year adjustments

The 2015-16 comparatives have been restated to account for the following:

- a change in the percentage used to calculate the taxes receivable credit amendment allowance and provision for tax refunds;
- an understatement of Pharmaceutical Benefits Scheme (PBS) drug recoveries revenue;

Notes to the financial statements

- the reclassification of the majority of corporations law fees from non-taxation receipts to taxation receipts, and the reclassification of financial institution supervisory levies from taxation receipts to non-taxation receipts; and
- the reclassification of payments made under the National Disability Insurance Scheme (NDIS) from grants expenses to benefits to households in goods and services.

The impact of changes from prior year adjustments have been disclosed in the relevant note.

1.6 The reporting entity and basis of consolidation

For the purposes of these financial statements, the Australian Government means the executive (consisting principally of Ministers and their departments), the legislature (that is, the Parliament) and the judiciary (that is, the courts). Where the 'Australian Government' is referred to throughout these statements, it is intended to also mean the 'Commonwealth of Australia'. The Australian Government reporting entity (referred to as the reporting entity) includes Australian Government Departments of State, Parliamentary Departments, other non-corporate Commonwealth entities, corporate Commonwealth entities and companies in which the Australian Government holds a controlling interest.

The Australian Government controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. The existence of control in the context of these financial statements does not in any way indicate that there is necessarily control over the manner in which statutory/professional functions are performed by an entity.

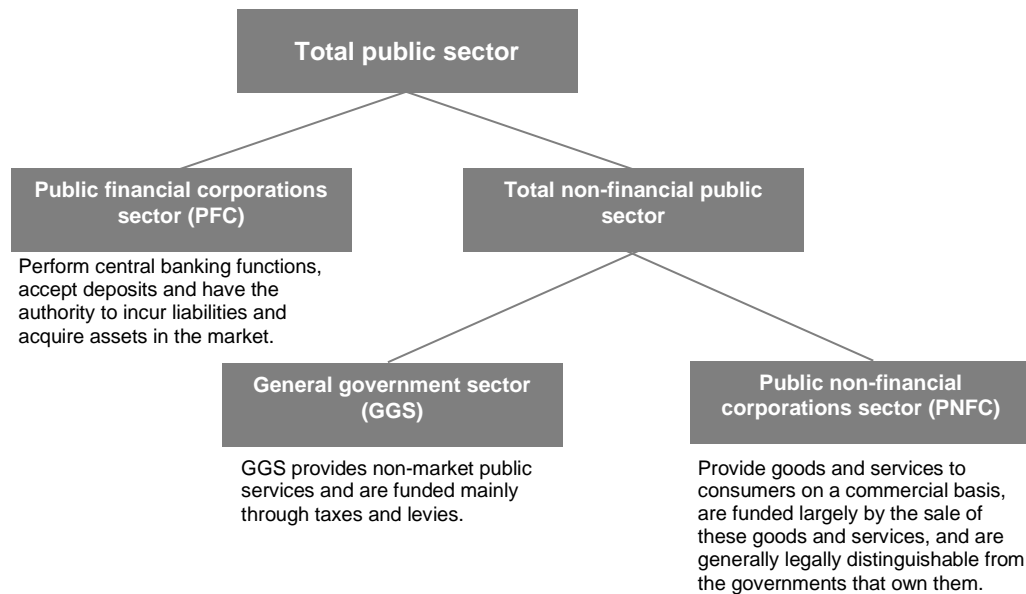
In the process of reporting the Australian Government as a single economic entity, all material transactions and balances between Australian Government controlled entities are eliminated. Any dissimilar accounting policies applied at the entity level are amended to ensure consistent policies are adopted in these financial statements where the effect is material.

Where control of an entity is obtained during a financial year, results are included in the consolidated operating statement and consolidated cash flow statement from the date on which control commenced. Where control of an entity ceases during a financial year, results are included for that part of the year for which control existed.

1.7 Sectors

The sector classification of Australian Government entities follows that defined by the Australian Bureau of Statistics for the purposes of GFS. This, in turn, is based on international standards issued by the IMF.

Figure 1: Institutional structure of the public sector



1.8 Significant accounting judgements and estimates

In preparing financial statements, Australian Government entities are required to make judgements and estimates that impact:

- income and expenses for the year;
- the reported amounts of assets and liabilities; and
- the disclosure of off-balance sheet arrangements, including contingent assets and contingent liabilities.

Judgements and estimates are subject to periodic review, including through the receipt of actuarial advice. Judgements and estimates are based on historical experience, various other assumptions believed to be reasonable under the circumstances and, where appropriate, practices adopted by other entities.

In the process of applying the accounting policies described in the relevant note, judgements and estimates made by Australian Government entities that have the most significant impact on the amounts recorded in these financial statements include:

Significant accounting estimate / judgement	Note
Taxation revenue items reported under the Economic Transaction Method (ETM)	2A
Impairment — key assumptions and methodologies used to estimate the recoverability of accounts receivable, statutory debts and inventory	4A
Fair value — assumptions used in valuation techniques for the fair value of financial assets and liabilities, including derivatives	5, 6

Notes to the financial statements

Significant accounting estimate / judgement	Note
Fair value and impairment test — key assumptions underlying recoverable amount and valuations of land, property, plant and equipment and infrastructure	5D
Measurement of defined benefit obligations — principal actuarial assumptions	6F, 9C
Recognition and measurement of provisions and contingencies — key assumptions about the likelihood and magnitude of an outflow or inflow of resources	6H, 9A

The ABS GFS Manual requires assets and liabilities to be measured at market value. Under AASB 1049, the Australian Government applies the AASB 13 *Fair Value Measurement* (AASB 13) fair value hierarchy to assets and liabilities except where another standard requires an alternate treatment. The fair value hierarchy categorises assets and liabilities at fair value into three levels:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that can be accessed at measurement date.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability.
- Level 3: Unobservable inputs for the asset or liability.

The classification of each asset and liability class by fair value level is disclosed in the relevant notes to the balance sheet.

Australian Government entities utilise a range of valuation techniques and inputs in determining fair value. The following table summarises the valuation techniques used by entities in determining the values of Level 2 and Level 3 categorised assets and liabilities:

Valuation technique	Description
Cost approach	The amount required currently to replace the service capacity of an asset.
Depreciated replacement cost (DRC)	The amount a market participant would be prepared to pay to acquire or construct a substitute asset of comparable utility, adjusted for obsolescence. Obsolescence is determined based on professional judgement regarding physical, economic and external obsolescence factors relevant to the asset under consideration.
Income approach / Discounted cash flows	Converts future amounts (cash flow or income and expenses) to a single current (i.e. discounted) amount. The fair value measurement is determined on the basis of the value indicated by current market expectations about those future amounts.
Market approach	Market approach seeks to estimate the current value of an asset with reference to recent market evidence including transactions of comparable assets within local second-hand markets.
Net assets of entities	The value of the corporation's assets less the value of its liabilities.

The following table summarises the inputs used by entities:

Input used	Description
Cost of new assets	The amount a market participant would pay to acquire or construct a new substitute asset of comparable utility.
Per square metre cost	The square metre cost of new or replacement assets.
Consumed economic benefit	Physical deterioration, functional or technical obsolescence and conditions of the economic environment specific to the asset.
Capitalisation rate	Rate of return on a real estate investment property based on the income that the property is expected to generate.
Market transactions	Market transactions of comparable assets, adjusted by a small amount to reflect differences in price sensitive characteristics (eg. size, condition etc).
Adjusted market transactions	Market transactions of comparable assets, involving significant professional judgement to adjust for other factors (eg. economic conditions) and their impact on price sensitive characteristics.
Principal due	The amount of the principal remaining to be repaid.
Discount rate	Rate at which cash flows are discounted back to the value at measurement date.
Future cash flows	The future predicted cash flows of the asset.
Foreign exchange rates	Rates used to convert foreign currencies into Australian dollars.
Weighted average cost of capital (WACC)	The average rate of return a company is expected to pay to all its security holders to finance its assets.
Net assets of entities	The value of the corporation's assets less the value of its liabilities.

1.9 Insurance

Australian Government entities operating in the GGS are members of the Australian Government's self managed fund for insurable risks, Comcover. This excludes workers' compensation where the risk continues to be managed by Comcare. Australian Government entities operating outside the GGS adopt their own insurance strategies, which includes both self-insurance and commercial insurance coverage.

1.10 Rounding

All amounts have been rounded to the nearest million dollars, unless otherwise noted.

1.11 Minority interests (non-controlling interests)

Minority interests have not been separately disclosed in the operating statement and balance sheet as they are immaterial to the CFS.

1.12 Compliance with the *Commonwealth of Australia Constitution Act*

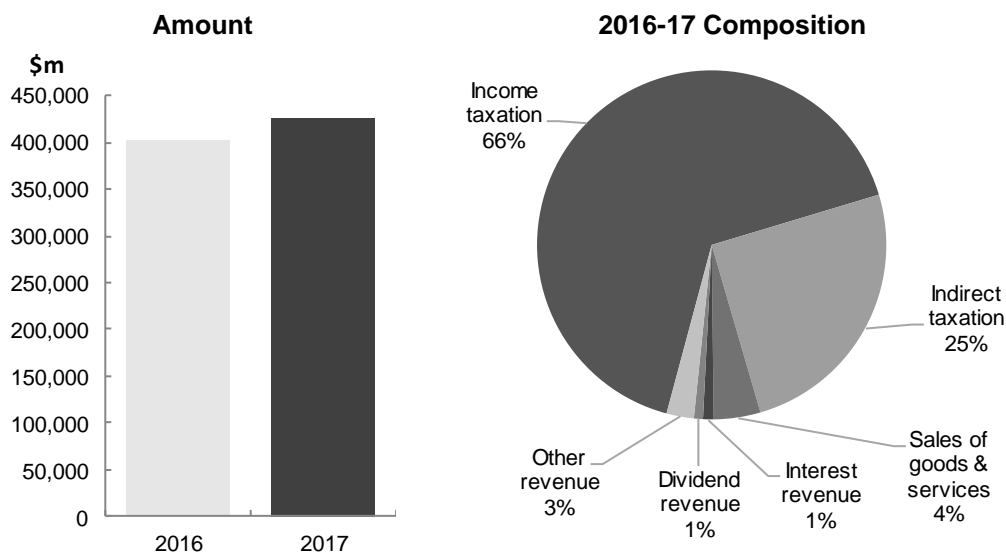
Section 83 of the *Commonwealth of Australia Constitution Act* (Constitution) provides that no amount may be paid out of the Consolidated Revenue Fund except under an appropriation made by law. It is important to note that it is not possible in all instances to fully remove the potential for Section 83 breaches under existing legislation. In many cases, the Australian Government relies on information provided by payment recipients to calculate and pay appropriate entitlements, and this information is not always timely or accurate.

Australian Government entities monitor their level of compliance with Section 83 of the Constitution across all legislation for which they have legislative responsibility. If an entity identified a potential or actual Section 83 breach during the reporting period, the details have been disclosed in the financial statements of the responsible entity.

In 2016-17, 839 actual breaches of Section 83 were identified across 11 Commonwealth entities, with a total value of \$3.4 million (2015-16: 622 breaches with a value of \$6.2 million).

Note 2: Revenue from transactions

Revenue from transactions arise from interactions between the Australian Government and other entities, including households, private corporations, the not-for-profit sector and other governments. It excludes gains resulting from changes in price levels and other changes in the volume of assets. These are disclosed separately in Note 4 as 'Other Economic Flows'. The total Australian Government revenue and relative composition of revenue sources were as follows:



- **Income taxation** (refer Note 2A) is the largest source of Australian Government revenue and refers to the taxation of income, profits and capital gains.
- **Indirect taxation** (refer Note 2A) includes taxes on the sale and use of goods and services and other taxes. This includes the goods and services tax (GST), customs and excise duties and other taxes levied on particular products or industries.
- **Sales of goods and services** (refer Note 2B) is distinguished from taxation in that the revenue is received in return for the direct provision of goods and services (including the provision of regulatory services) to the payer.
- **Interest revenue** (refer Note 2C) refers to income accrued on financial assets such as deposits, securities other than shares, loans and accounts receivable.
- **Dividend revenue** (refer Note 2C) includes equity distributions received by the Australian Government Investment Funds (Investment Funds) and corporations and, at the GGS level, also includes distributions from corporate Commonwealth entities or companies (which are eliminated upon consolidation).
- **Other non-taxation revenue** (refer Note 2D) includes transaction revenue not categorised elsewhere, with significant items including Pharmaceutical Benefits Scheme drug recoveries, the collection of royalties and the collection of child support payments to pass on to custodial parents.

Note 2A: Taxation revenue

	General Government		Australian Government	
	2017	2016	2017	2016
	\$m	\$m	\$m	\$m
Income taxation				
Individuals and other withholding taxes				
Gross income tax withholding	180,619	174,818	180,619	174,818
Gross other individuals	45,133	43,261	45,133	43,261
less Refunds	(28,364)	(28,081)	(28,364)	(28,081)
Total individuals and other withholding taxation	197,388	189,998	197,388	189,998
Fringe benefits tax	3,905	4,459	3,905	4,459
Company tax	71,170	63,644	71,097	63,649
Superannuation funds	8,229	6,835	8,229	6,835
Resource rent taxes	976	889	976	889
Total income taxation revenue	281,668	265,825	281,595	265,830
Indirect taxation				
Sales taxes				
Goods and services tax	62,727	60,301	62,727	60,301
Wine equalisation tax	850	883	850	883
Luxury car tax	674	620	674	620
Total sales taxes	64,251	61,804	64,251	61,804
Excise duty revenue(a)	21,895	21,625	21,895	21,625
Customs duty revenue(a)	14,196	14,046	14,196	14,046
Other indirect taxation				
Agricultural levies	554	522	554	522
Other taxes(b)	6,077	5,776	6,077	5,776
Total other indirect taxation revenue	6,631	6,298	6,631	6,298
Mirror taxes	543	513	543	513
less Transfers to States in relation to mirror tax revenue	(543)	(513)	(543)	(513)
Mirror tax revenue	-	-	-	-
Total indirect taxation revenue	106,973	103,773	106,973	103,773
Total taxation revenue(c)	388,641	369,598	388,568	369,603

(a) The 2016-17 Final Budget Outcome provides a disaggregation of excise and customs duty revenue by duty type.

(b) Following a review of revenue classifications, the majority of corporations law fees have been reclassified from non-taxation receipts to taxation receipts, and financial institution supervisory levies have been reclassified from taxation receipts to non-taxation receipts. This has resulted in a net \$530 million increase in the 2015-16 comparative taxation revenue.

(c) The 2015-16 comparative revenue has increased by a net \$132 million for a change in the percentage used to calculate the taxes receivable credit amendment allowance and provision for tax refunds.

Taxation revenue

Taxation revenues are recognised when there is a basis establishing the Australian Government's right to receive the revenue, it is probable that future economic benefits will be received, and the amount of revenue to be received can be reliably measured. Estimation of some revenues can be difficult due to impacts of economic conditions and the timing of final taxable income, hence the Australian Government uses two bases of recognition:

- **Economic Transaction Method (ETM)** – Revenue is recognised when the Government, through the application of legislation to taxation and other relevant

activities, gains control over the future economic benefits that arise from taxes and other statutory charges. Where a taxation revenue is able to be measured reliably (even in cases where the transactions are yet to occur but are likely to be reported) the ETM method is used to recognise revenue.

- **Taxation Liability Method (TLM)** – Revenue is recognised at the earlier of when an assessment of a tax liability is made, or payment is received. Furthermore, revenue is recognised when there is sufficient information to raise an assessment but an event has occurred which delays the issue of the assessment. This method is permitted when there is an ‘inability to reliably measure taxes when the underlying transactions or events occur’. Revenue recognised under this policy is generally measured at a later time than would be the case if it were measured under ETM.

The revenue recognition policy adopted by the Australian Government for each major type of taxation revenue is as follows:

Type of taxation revenue	Revenue recognition basis	Basis of revenue recognition
Income tax — individuals	TLM	Comprise income tax withholding (ITW), other individuals, Medicare levy and income tax refunds. ITW represents amounts withheld from payments of remuneration for the year. Other individuals revenue includes income tax instalments and final tax returns received during the year. Other individuals revenue and income tax refunds do not incorporate an estimate of the tax to be paid or refunded on the final assessment for the year.
Income tax — companies	TLM	Comprise amounts of tax payable by companies that relate to instalments and final payments received/raised for current and former periods. It does not include estimates of revenue related to the reporting year that will be recognised in annual income tax returns lodged after the reporting date.
Income tax — superannuation funds	TLM	Superannuation contributions tax is levied on superannuation funds based on contributions made by employers. Superannuation fund tax revenue comprise amounts of tax payable by superannuation funds that relate to instalments and payments for current and former reporting years. It does not include estimates of revenue related to the reporting year that will be recognised in annual income tax returns lodged after the reporting date.
Petroleum resource rent tax (Resource rent taxes)	ETM	Recognised based on the actual and estimated taxable profits in respect to offshore petroleum projects excluding some of the North-West Shelf production and associated exploration areas, which are subject to excise (included in excise on petroleum and other fuel products) and royalties.
Goods and services tax (GST)	ETM	Recognised based on the actual liabilities raised during the year and includes an estimate of amounts outstanding that relate to transactions occurring in the reporting period.
Excise duty	ETM	Recognised based on the actual and estimated duty payable. Excise duty becomes payable when certain goods are distributed for home consumption during the reporting period.

Notes to the financial statements

Type of taxation revenue	Revenue recognition basis	Basis of revenue recognition
Customs duty	ETM	Recognised when imported goods are distributed for home consumption.
Luxury car tax	ETM	Recognised at the time the sale (or private import) of a luxury vehicle occurs within the reporting period and includes an estimate of amounts outstanding that relate to transactions occurring in the reporting period.
Wine equalisation tax	ETM	Recognised when an assessable dealing occurs within the reporting period giving rise to a tax liability and includes an estimate of amounts outstanding that relate to transactions occurring in the reporting period.
Fringe benefits tax (FBT)	ETM	Recognised on fringe benefits provided by employers to employees during the reporting period and includes an estimate of outstanding instalments and balancing payments for the annual FBT return.

Penalties and general interest charges (GIC) arising under taxation legislation are recognised as revenue at the time the penalty and GIC are imposed on the taxpayer and included within the relevant revenue categories. Generally, subsequent remissions and write-offs of such penalties and interest are treated as an expense (mutually agreed writedown) or other economic flow of the period. Penalties and interest that are imposed by law and immediately cancelled by the Commissioner of Taxation are not recognised as revenue or expense.

Taxpayers are entitled to dispute amounts assessed by the Australian Government. Where the Government considers that the probable outcome will be a reduction in the amount of tax owed by a taxpayer, an allowance for credit amendment (if the disputed debt is unpaid) or a provision for refund (if the disputed debt has been paid) will be created and there will be a corresponding reduction in revenue.

Concessions and other forms of tax expenditures constitute revenue foregone and are not reported as taxation revenue or an expense (unless available to beneficiaries regardless of whether they are required to pay tax in which case an expense is recorded). The Department of the Treasury (the Treasury) issues an annual Tax Expenditures Statement (unaudited), which provides a list of tax expenditures provided by the Australian Government to individuals and businesses.

Note 2B: Sales of goods and services

	General Government		Australian Government	
	2017 \$m	2016 \$m	2017 \$m	2016 \$m
Sales of goods	1,461	1,618	1,860	2,025
Rendering of services	5,225	4,101	14,939	13,153
Operating lease rental	112	77	173	138
Other fees from regulatory services(a)	1,432	1,293	1,432	1,293
Total sales of goods and services revenue	8,230	7,089	18,404	16,609

(a) The 2015-16 comparative sales of goods and services revenue has been reduced by \$530 million per Note 2A.

Sales of goods and services

Revenue from the sale of goods is recognised when the risks and rewards of ownership have been transferred to the buyer, the seller retains neither managerial involvement nor effective control over the goods, the revenue and transaction costs incurred can be reliably measured, and it is probable that the economic benefits associated with the transaction will flow to the entity.

Revenue from the rendering of services is recognised by reference to the stage of completion of contracts at the reporting date. The revenue is recognised when the amount of revenue, stage of completion and transaction costs incurred can be reliably measured, and it is probable that the economic benefits associated with the transaction will flow to the entity.

The Government charges fees for both regulatory and other services. These fees are designed to cover all or part of the cost of providing a regulatory function. If the revenue collected is clearly out of proportion to the costs of providing the regulatory service, then the fee is classified as taxation revenue. Fees from regulatory services are recognised when collected or when due and payable under the relevant legislation.

Note 2C: Interest and dividend income

	General Government		Australian Government	
	2017	2016	2017	2016
	\$m	\$m	\$m	\$m
Interest from other governments				
State and territory debt	51	49	51	49
Housing agreements	107	112	107	112
General purpose advances	-	-	106	143
Total interest from other governments	158	161	264	304
Interest from other sources				
Indexation of HELP receivable and other student loans	505	457	505	457
Securities	1,163	1,136	1,182	2,607
Advances, deposits and other	1,166	1,177	2,194	911
Total interest from other sources	2,834	2,770	3,881	3,975
Total interest	2,992	2,931	4,145	4,279
Dividends				
Dividends from other public sector entities	1,575	3,442	-	-
Other dividends	3,423	2,798	3,556	2,863
Total dividends	4,998	6,240	3,556	2,863
Total interest and dividend income	7,990	9,171	7,701	7,142

Interest and dividend income

Interest revenue is recognised using the effective interest method. Dividend revenue is recognised when the right to receive a dividend has been established.

Notes to the financial statements

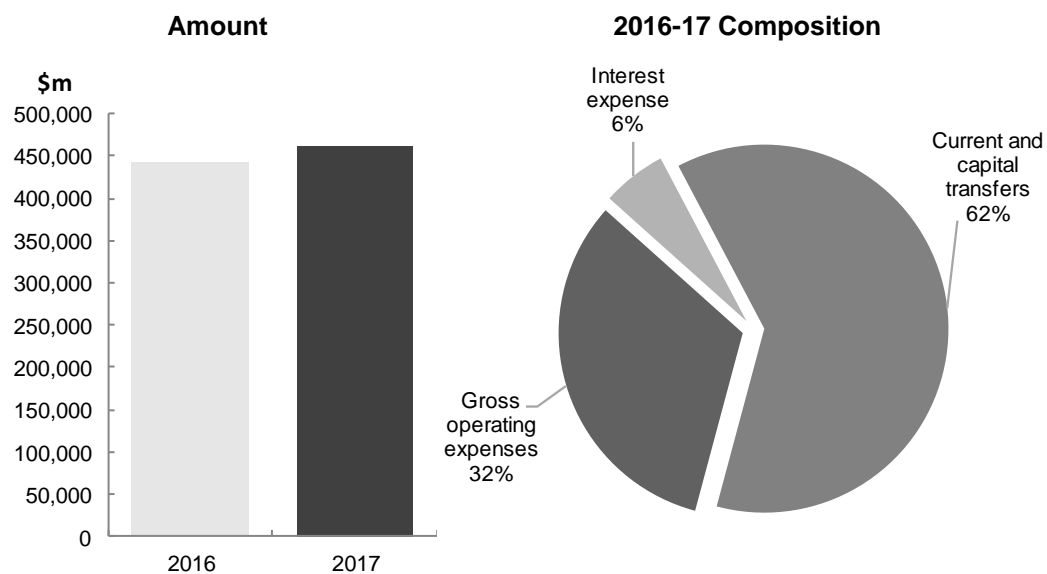
Note 2D: Other sources of non-taxation revenue

	General Government		Australian Government	
	2017	2016	2017	2016
	\$m	\$m	\$m	\$m
Royalties	992	1,005	992	1,005
Seigniorage	107	145	107	145
Child support payments	1,543	1,517	1,543	1,517
Loan fees	276	676	276	676
PBS drug recoveries(a)	3,268	1,707	3,268	1,707
Other	4,677	4,407	4,609	4,380
Total other sources of non-taxation revenue	10,863	9,457	10,795	9,430

(a) The 2015-16 comparative has been increased by \$131 million for understated PBS drug recoveries revenue.

Note 3: Expenses from transactions

Expenses from transactions arise from interactions between the Australian Government and other entities, including households, private corporations, the not-for-profit sector and other governments. They exclude losses resulting from changes in price levels and other changes in the volume of assets. These are disclosed separately in Note 4 as 'Other Economic Flows'. The total Australian Government expenses and relative composition of expenses are as follows:



- **Gross operating expenses** cover the costs incurred by the Government in the provision of services, including benefit payments to third parties to provide services to households (such as Medicare). Included in gross operating expenses are:
 - employee and superannuation expenses (refer Note 3A),
 - depreciation and amortisation (refer Note 3B), and
 - supply of goods and services (refer Note 3C).
- **Interest expenses** comprise the nominal growth in the Government's unfunded superannuation liabilities (refer Note 3A), interest incurred on financial liabilities and the initial discount recognised on the provision of concessional loans (refer Note 3D).
- **Current and capital transfers** are unrequited transfers in the form of:
 - personal benefits paid directly to individuals or households,
 - subsidies to public and private entities to allow them to provide goods or services at a reduced cost, or

Notes to the financial statements

- financial assistance in the form of current or capital grants to third parties to achieve particular government outcomes (refer Note 3E).

Note 3A: Employee and superannuation expenses

	General Government		Australian Government	
	2017 \$m	2016 \$m	2017 \$m	2016 \$m
Wages and salaries expenses	19,059	18,675	23,322	22,730
Other operating expenses				
Leave and other entitlements	2,421	3,084	3,018	3,836
Separations and redundancies	292	278	366	429
Workers compensation premiums and claims	934	641	997	687
Allowances, FBT and other	2,259	2,329	2,337	2,428
Total other operating expenses	5,906	6,332	6,718	7,380
Superannuation expenses				
Superannuation	9,831	7,854	10,431	8,396
Superannuation interest	8,445	9,106	8,445	9,106
Total superannuation expenses	18,276	16,960	18,876	17,502
Total employee and superannuation expense(a)	43,241	41,967	48,916	47,612

(a) Employee benefit accounting policies are disclosed in Note 6F and superannuation is disclosed in Note 9C.

Note 3B: Depreciation and amortisation expenses

	General Government		Australian Government	
	2017 \$m	2016 \$m	2017 \$m	2016 \$m
Depreciation				
Specialist military equipment	4,046	3,968	4,046	3,968
Buildings	1,497	1,457	1,657	1,583
Other infrastructure, plant and equipment	1,551	1,619	2,999	2,647
Heritage and cultural assets	100	104	100	104
Total depreciation	7,194	7,148	8,802	8,302
Total amortisation	1,096	1,039	1,757	1,556
Add back Amortisation of non-produced assets	(76)	(55)	(103)	(85)
Total depreciation and amortisation expense	8,214	8,132	10,456	9,773

Depreciation

Land, being an asset with an unlimited useful life, is not depreciated. The majority of buildings, plant, equipment and infrastructure are depreciated on a straight-line basis over their useful life or over the lesser of the lease term and useful life for selected leasehold improvements.

Depreciation and amortisation rates applying to each class of depreciable assets are based on the following useful lives:

	2017	2016
Buildings	1-200 years	1-200 years
Specialist military equipment	1-48 years	1-54 years
Other plant, equipment and infrastructure	1-115 years	1-112 years
Heritage and cultural assets	1-5,000 years	1-5,000 years

Amortisation

Software is amortised on a straight-line basis over its anticipated useful life. Other intangible assets are amortised from the date they are available for use, unless classified as an indefinite life intangible (for example, goodwill and water entitlements). Amortisation rates applying to each class of intangible asset are based on the following useful lives:

	2017	2016
Computer software	1-26 years	1-24 years
Other intangibles(a)	1-100 years	1-100 years

(a) The useful life of the Hansard digitised data is currently 100 years.

Note 3C: Supply of goods and services

	General Government		Australian Government	
	2017	2016	2017	2016
	\$m	\$m	\$m	\$m
Supply of goods and services	29,322	27,415	34,841	31,679
Operating lease rental expenses	2,496	2,551	2,768	2,808
Health care payments	4,833	4,768	4,833	4,768
Benefits to households in goods and services(a)	54,040	48,153	54,040	48,153
Other	2,347	2,233	2,578	2,444
Total payment for supply of goods and services	93,038	85,120	99,060	89,852

(a) The 2015-16 comparative has been increased by \$725 million for the reclassification of payments made under the NDIS from grants expenses.

Supply of goods and services

The expense recognition policy for the supply of goods and services is consistent with the revenue policy detailed in Note 2B.

Operating leases

Operating lease payments are expensed on a straight-line basis, which is representative of the pattern of benefits derived from the leased assets.

Operating lease commitments

Operating lease commitments include the following types of leasing arrangements:

- computer and office equipment leases;

Notes to the financial statements

- office accommodation leases;
- agreements for the provision of motor vehicles; and
- transportation and support facilities for Antarctic operations.

Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:

	General Government		Australian Government	
	2017 \$m	2016 \$m	2017 \$m	2016 \$m
Leasing commitments				
Within 1 year	2,787	2,728	3,114	3,026
Between 1 to 5 years	9,088	8,407	9,850	9,087
More than 5 years	6,309	6,793	7,195	7,501
Total lease commitments	18,184	17,928	20,159	19,614

Sub-leases

Within the Australian Government, the majority of sub-lease commitments involve property arrangements between controlled entities. Some entities do sub-lease to external parties, with the largest including commercial, industrial and retail sites sub-leased by Australia Post (2017: \$170 million; 2016: \$178 million) and facilities subleased by the National Capital Authority in Canberra (2017: \$71 million; 2016: \$72 million).

Benefits to households in goods and services (indirect personal benefits)

These benefits are provided to households as social transfers and delivered by a third party (for example, medical and pharmaceutical benefits). The benefits are reported separately to personal benefits which comprise current transfers provided directly to individuals or households, rather than via a third party. Direct and indirect personal benefit payments are determined in accordance with provisions under social security law and other legislation.

Note 3D: Interest expense

	General Government		Australian Government	
	2017 \$m	2016 \$m	2017 \$m	2016 \$m
Interest on debt				
Government securities	16,029	15,312	15,576	14,828
Loans	1	9	141	136
Taxation overpayments	162	174	162	174
Exchange settlement funds	-	-	384	458
Deposits	4	4	44	30
Other	33	24	108	99
Total interest on debt	16,229	15,523	16,415	15,725
Other financing costs				
Discount on concessional instruments	568	675	568	675
Unwinding of discount and other	154	377	160	379
Finance charges for finance leases	108	98	509	418
Total other financing costs	830	1,150	1,237	1,472
Total interest expense	17,059	16,673	17,652	17,197

Interest expense

Interest on outstanding borrowings and other finance costs directly related to borrowings are expensed as incurred.

Note 3E: Grants expense

	General Government		Australian Government	
	2017	2016	2017	2016
	\$m	\$m	\$m	\$m
Current grants expense				
State and Territory governments(a)	106,351	99,363	106,351	99,363
Local governments	2	6	2	6
Private sector	8,292	6,262	8,292	6,262
Overseas	4,127	3,659	4,127	3,659
Non-profit organisations	3,950	4,393	3,950	4,393
Multi-jurisdictional sector	10,164	10,319	10,164	10,319
Other(b)	1,428	1,408	1,427	1,337
Total current grants expense	134,314	125,410	134,313	125,339
Capital grants expense				
Mutually agreed write-downs	1,203	1,193	1,203	1,193
Other capital grants				
State and Territory governments(a)	8,551	5,869	8,551	5,869
Local governments	779	958	779	958
Non-profit organisations	431	380	431	380
Private sector	252	375	252	375
Other	127	7	15	7
Total other capital grants expense	10,140	7,589	10,028	7,589
Total capital grants expense	11,343	8,782	11,231	8,782
Total grants expense	145,657	134,192	145,544	134,121

(a) Current and capital grants to and through 'State and Territory Governments' are limited to grants under the *Federal Financial Relations* framework, as disclosed in Budget Paper No. 3 and the Final Budget Outcome. Commonwealth entities may also provide grants to individual state and territory government entities, including under the *Commonwealth Grants Rules and Guidelines (CGRG)*. These are disclosed as grants to non-profit organisations or other grants as appropriate.

(b) The 2015-16 comparative has been reduced by \$725 million for the reclassification of payments made under the NDIS to supply of goods and services expense.

Current and capital transfers (grants)

Where no economic benefits are receivable in return for transfers, amounts are recognised as current transfers. For other transfers, the distinction between current and capital transfers is based on the nature of the activities or assets for which the transfers are made. If the activities or assets relate to the acquisition of assets, other than inventories that will be used in production for one year or more, the transfers are treated as capital transfers. Otherwise, they are treated as current transfers.

Where a transaction or event gives rise to legal, social, political or economic consequences such that the Australian Government has little discretion to avoid the sacrifice of future economic benefits, a liability and expense is recognised. In other circumstances, grants are recognised to the extent that the services required to be performed by the grantee have been performed or the grant eligibility criteria have been satisfied. Multi-year government to government grants, including education

Notes to the financial statements

grants, are recognised when the recipient government has met the grant eligibility criteria or provided the services or facilities that make it eligible to receive the grant.

Capital transfers also include mutually agreed write-downs. These transactions occur when both parties agree to the write-off of an amount owed to the Australian Government, rather than the Australian Government unilaterally deciding to write-down or write-off a debt. Mutually agreed write-downs include, for example, the remission of a penalty raised for overdue taxes receivable. Mutually agreed write-downs are recorded as an expense in the calculation of fiscal balance.

The 2016-17 Final Budget Outcome provides a disaggregation of current and capital grants to state and territory governments, and local governments, by jurisdiction.

Note 3F: Expenses by function

	General Government		Australian Government	
	2017	2016	2017	2016
	\$m	\$m	\$m	\$m
General public services	26,200	24,207	27,042	25,144
Defence	28,141	27,034	28,229	27,175
Public order and safety	5,155	4,823	5,152	4,819
Education	32,591	32,122	32,591	32,122
Health	74,420	69,301	74,534	69,297
Social security and welfare	153,164	152,122	152,976	152,049
Housing and community amenities	4,626	4,741	4,626	4,741
Recreation and culture	3,613	3,462	3,613	3,462
Fuel and energy	6,722	6,423	6,722	6,423
Agriculture, forestry and fishing	2,607	2,261	2,607	2,261
Mining, manufacturing and construction	3,249	3,103	3,350	3,201
Transport and communication	9,312	7,083	22,816	18,572
Other economic affairs	9,301	9,198	9,556	8,937
Other purposes	88,706	83,831	88,263	83,827
Total expenses	447,807	429,711	462,077	442,030

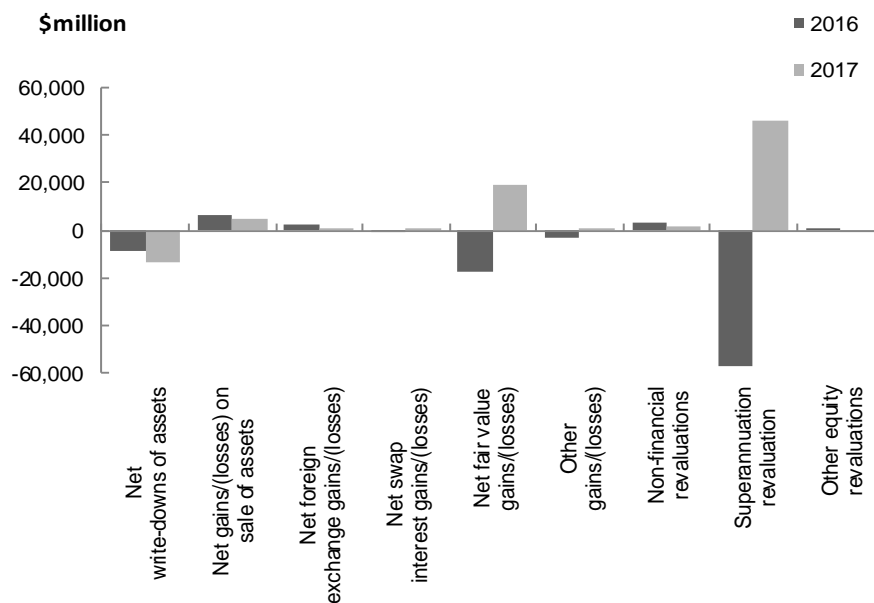
The functional classification of expenses shows the total accrual outlays according to the socioeconomic objectives that the Australian Government aims to achieve. The following table provides a description of each function.

Notes to the financial statements

Function	Description
General public services	Includes legislative and executive affairs, financial and fiscal affairs, foreign affairs, foreign economic aid, general research, general economic and social planning, statistical services, and government superannuation benefits.
Defence	Includes military and civil defence affairs, foreign military aid and defence research.
Public order and safety	Includes administration of the federal legal system and the provision for legal services, including legal aids, to the community. Public order and safety expenses also include law enforcement and intelligence activities, and the protection of Australian Government property.
Education	Includes primary and secondary education, university and other higher education, technical and further education, preschool and special education, and transportation of students.
Health	Includes general hospitals, repatriation hospitals, mental health institutions, nursing homes, special hospitals, hospital benefits, medical benefits, medical clinics and practitioners, dental clinics and practitioners, maternal and infant health, ambulance services, school and other public health services, pharmaceuticals, medical aids and appliances, and health research.
Social security and welfare	Includes sickness benefits, benefits to ex service people and their dependants, invalid and other permanent disablement benefits, old age benefits, widows, deserted wives, divorcees and orphans' benefits, unemployment benefits, family and child benefits, sole parent benefits, family and child welfare, and aged and handicapped welfare.
Housing and community amenities	Includes housing and community development, water supply, household garbage and other sanitation, sewerage, urban stormwater drainage, protection of the environment, and street lighting.
Recreation and culture	Includes public halls and civic centres, swimming pools and beaches, national parks and wildlife, libraries, creative and performing arts, museums, art galleries, broadcasting, and film production.
Fuel and energy	Includes coal, petroleum, gas, nuclear affairs, and electricity.
Agriculture, forestry and fishing	Includes agricultural land management, agricultural water resources management, agricultural support schemes, agricultural research and extension services, forestry and fishing.
Mining, manufacturing and construction	Includes activities relating to prospecting, mining and mineral resources development, manufacturing activities and research into manufacturing methods, materials and industrial management, and activities associated with the building and construction industry.
Transport and communication	Includes road construction, road maintenance, parking, water transport, rail transport, air transport, pipelines, multi mode urban transit systems, and communications.
Other economic affairs	Includes storage, saleyards, markets, tourism and area promotion, and labour and employment affairs.
Other purposes	Includes public debt transactions, general purpose inter government transactions and natural disaster relief. Grants to and through State and Territory Governments are recorded against the 'other purposes' function.

Note 4: Other economic flows

Other economic flows are the changes in the volume or value of assets and liabilities that do not result from transactions. This includes impairment write-downs (unless mutually agreed with the counter-party), fair value movements, changes in assumptions underpinning actuarial assessments, and foreign exchange gains or losses. For government reporting, these flows are distinguished from transactions as they do not involve an interaction between entities and are often not related to economic activities (for example, production, income generation, consumption, wealth accumulation). Noting that other economic flows comprise both gains and losses, the predominant sources of other economic flows are as follows:



Of the above, the following flows are included in the measurement of the accounting operating result. The remaining movements are adjusted directly to equity.

- **Net write-down of assets** (refer Note 4A) comprise the revaluation and impairment of financial and non-financial assets.
- **Net gains/(losses) from the sale of assets** (refer Note 4B) is the difference between the proceeds and the carrying amount of assets sold after selling costs.
- **Net foreign exchange gains/(losses)** (refer Note 4C) comprise unrealised gains/losses from the translation of assets and liabilities held overseas.
- **Net swap interest gains/(losses)** (refer Note 4C) comprise interest accrued or incurred on swaps and other derivatives (a form of financing transaction).
- **Net fair value and other gains/(losses)** (refer Note 4C) comprise fair value movements and other volume or price movements included in the calculation of the operating result for accounting purposes.

Note 4A: Net write-down of assets (including bad and doubtful debts)

	General Government		Australian Government	
	2017 \$m	2016 \$m	2017 \$m	2016 \$m
Financial Assets				
Receivables - bad and doubtful debts				
Goods and services	181	177	187	177
Taxes due	5,489	3,302	5,489	3,302
Other	510	588	510	588
Total receivables - bad and doubtful debts	6,180	4,067	6,186	4,067
Net write-down/(reversal) and impairment arising from the revaluation of investments and other financial assets	5,984	4,097	5,989	4,097
Total financial write-down and impairment	12,164	8,164	12,175	8,164
Non-Financial Assets				
Inventories	411	562	418	572
Land	344	-	344	(8)
Buildings	37	52	37	23
Specialist military equipment	293	214	293	214
Other infrastructure, plant and equipment	60	54	72	85
Heritage and cultural assets	1	3	1	3
Intangibles	77	(302)	80	(247)
Net write-down, impairment and fair value losses arising from the revaluation of non-financial assets	1,223	583	1,245	642
Total net write-down and impairment of assets and fair value losses	13,387	8,747	13,420	8,806

Impairment of taxes due

Impairment losses for large tax receivables (greater than \$10 million) are estimated on an individual assessment basis, with a default percentage impairment rate (based on historical collectability rates) applied to debts where the taxpayer is insolvent or has entered into a payment arrangement. The remaining tax receivables (less than or equal to \$10 million) impairment loss is derived using an automated model which allows large debt populations to be examined and provides for statistical credibility, in conjunction with interpretive judgement.

Impairment of non-financial assets

Non-financial assets were assessed for impairment at 30 June 2017. Where indications of impairment exist, the asset's recoverable amount is estimated and an impairment adjustment made if the asset's recoverable amount is less than its carrying amount. The recoverable amount of an asset is the higher of its fair value less cost to sell and its value in use. Where the future economic benefit of an asset is not primarily dependent on the asset's ability to generate future cash flows, and the asset would be replaced if the Australian Government was deprived of the asset, its value in use is taken to be its DRC.

Notes to the financial statements

Note 4B: Net gains/(losses) from the sale of assets

	General Government		Australian Government	
	2017 \$m	2016 \$m	2017 \$m	2016 \$m
Financial Assets				
Net gains/(losses) - financial assets	4,990	6,052	4,423	5,896
Non-Financial Assets				
Proceeds from sale of non-financial assets	874	486	939	551
less selling costs	(16)	(12)	(16)	(12)
less written down value of assets sold	(349)	(316)	(395)	(366)
Net gains/(losses) - non-financial assets	509	158	528	173
Net gains/(losses) from sale of assets	5,499	6,210	4,951	6,069
Add back selling costs included in expenses	16	12	16	12
Net gains/(losses) from sale of assets in other economic flows	5,515	6,222	4,967	6,081

Note 4C: Other gains/(losses)

	General Government		Australian Government	
	2017 \$m	2016 \$m	2017 \$m	2016 \$m
Foreign exchange				
Net foreign exchange gains/(losses)	1,439	429	149	2,247
Net foreign exchange gains/(losses)	1,439	429	149	2,247
Interest on derivatives				
Net swap interest revenue	320	2,203	397	2,301
Net swap interest expense	(222)	(2,408)	(275)	(2,474)
Net interest on derivatives	98	(205)	122	(173)
Fair value through profit or loss				
Fair value gains - financial instruments	19,158	(17,813)	19,219	(17,795)
Fair value gains - biological assets	16	22	16	22
Fair value gains - investment properties	2	16	95	48
Net fair value gains/(losses)	19,176	(17,775)	19,330	(17,725)
Other				
Net repurchase premia	(414)	(303)	(414)	(303)
Assets now recognised	-	283	-	283
Net actuarial gains/(losses)	443	(3,244)	443	(3,244)
Amortisation of non-produced assets	(76)	(55)	(103)	(85)
Net result from associates and joint ventures	(39)	15	(33)	15
Other	235	108	248	108
Net other gains/(losses)	149	(3,196)	141	(3,226)
Total other gains/(losses)	20,862	(20,747)	19,742	(18,877)

Foreign currency translation

Transactions are translated to Australian dollars at the rate of exchange applicable at the date of the transaction. Balances and investments are translated at the exchange rates applicable at balance date.

Swap interest

Consistent with the ABS GFS Manual, interest on swaps and other derivatives is classified as a financing transaction and recorded in 'other economic flows'.

Fair value through profit or loss

Comprises fair value movements in financial assets and liabilities categorised as 'held at fair value through profit or loss'.

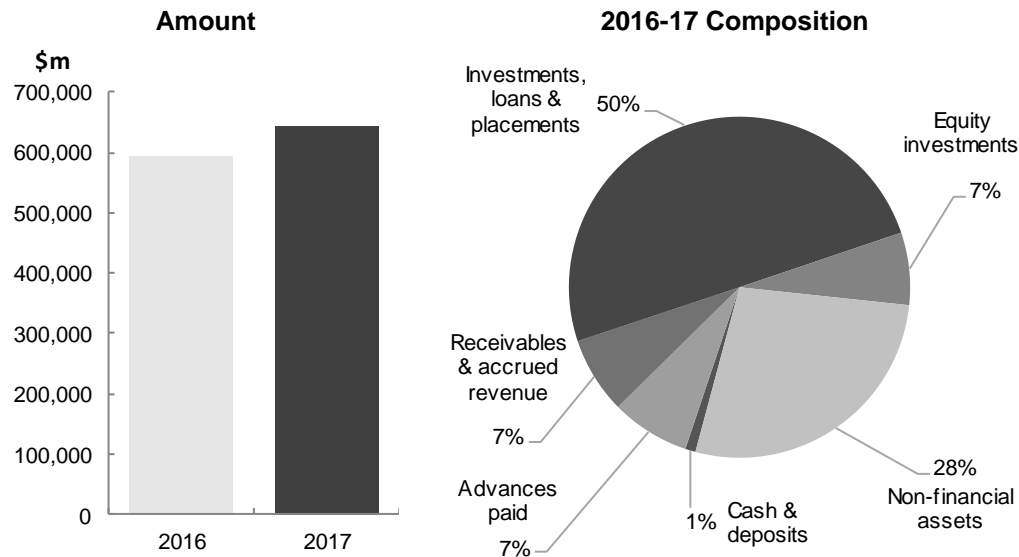
Other gains/(losses)

Other gains/(losses) primarily comprise:

- the actuarial revaluation of provisions, other than superannuation;
- gains from the reversal of previous asset write-downs and impairment;
- the amortisation of intangible 'non-produced' assets such as goodwill and purchased trademarks; and
- gains resulting from the derecognition of financial assets previously categorised as 'available for sale' with the gain equal to the accumulated fair value movements previously taken direct to reserves.

Note 5: Assets

Assets are probable future economic benefits obtained or controlled by an Australian Government entity as a result of past transactions and activities undertaken, and other events. The value and composition of Australian Government assets are as follows:



Financial assets

Financial assets are classified in accordance with the ABS GFS Manual as follows:

- **Cash and deposits** include cash on hand or at bank and short-term deposits.
- **Advances paid** (refer Note 5A) include loans receivable and are predominantly provided for policy purposes such as student loans.
- **Other receivables and accrued revenue** (refer Note 5A) include statutory amounts due for the collection of tax or the recovery of benefits, and contractual amounts due for the provision of goods and services or other arrangements.
- **Investments, loans and placements** (refer Note 5B) comprise securities and other non-equity investments held for liquidity or policy purposes.
- **Equity investments** (refer Note 5C) cover shares held by the Investment Funds and corporations and, at the GGS level, include the investment in public corporations (which are eliminated upon consolidation).

The Australian Government also discloses financial assets by category of financial instrument. Financial assets are allocated into the following categories:

Financial assets at fair value through profit or loss	Loans and receivables	Held-to-maturity investments	Available-for-sale
Financial assets held for trading, and those designated at fair value through profit or loss. Derivatives are categorised as held for trading unless they are designated as hedges	Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market	Non-derivative financial assets with fixed or determinable payments and fixed maturities where there is a positive intention and ability to hold to maturity	Principally marketable equity securities, are non-derivatives that are either designated in this category or not classified in any of the other categories

The Australian Government balance sheet also includes financial assets which are not financial instruments under AASB 7 *Financial Instruments: Disclosures* (AASB 7). Statutory receivables, gold holdings and equity accounted investments are included in financial assets in the balance sheet but are excluded from additional financial instrument disclosures as they do not represent cash, an equity instrument of another entity, nor a contractual right to receive cash or another financial asset.

Financial assets are assessed for impairment at each balance date. If there is objective evidence that an impairment loss has been incurred it is recognised as follows:

Financial asset category	Measurement of impairment loss	Recognition of impairment loss
Financial assets held at amortised cost: loans and receivables or held to maturity investments held at amortised cost	Difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the asset's original effective interest rate.	<ul style="list-style-type: none"> carrying amount is reduced by way of an allowance account loss is recognised in the operating statement as an 'other economic flow'.
Financial assets held at cost: unquoted equity instrument held at cost (because fair value cannot be reliably measured) or a linked derivative asset	Difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate for similar assets.	<ul style="list-style-type: none"> loss is recognised in the operating statement as an 'other economic flow'.
Available for sale financial assets	Difference between its cost, less principal repayments and amortisation, and its fair value, less any impairment loss previously recognised in the operating statement.	<ul style="list-style-type: none"> transferred from equity (net worth) to the operating statement as an 'other economic flow'.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire or the asset is transferred to another entity. In the case of a transfer to another entity, it is necessary that the risks and rewards of ownership are also transferred.

Non-financial assets

Non-financial assets comprise the Government's holdings of land and buildings, plant, equipment and infrastructure, heritage and cultural assets, investment properties and intangibles (refer Note 5D). Non-financial assets also includes inventories for sale, use or distribution (refer Note 5E) and other non-financial assets (refer Note 5F).

Note 5A: Advances paid and receivables

	General Government		Australian Government	
	2017 \$m	2016 \$m	2017 \$m	2016 \$m
ADVANCES PAID				
Loans to State and Territory governments	3,897	3,839	3,897	3,839
Student loans	36,702	37,219	36,702	37,219
Other	6,506	6,077	7,682	7,373
less Impairment allowance	(291)	(237)	(292)	(237)
Total advances paid	46,814	46,898	47,989	48,194
OTHER RECEIVABLES				
Taxes receivable				
Taxes receivable	38,339	34,204	38,295	34,215
less Impairment allowance	(13,583)	(11,764)	(13,583)	(11,764)
less Credit amendment allowance(a)	(2,537)	(2,765)	(2,537)	(2,765)
Net taxes receivable	22,219	19,675	22,175	19,686
Personal benefits recoverable				
Recoveries of benefit payments(b)	5,898	5,477	5,898	5,477
less Impairment allowance	(1,179)	(1,034)	(1,179)	(1,034)
Net personal benefits recoverable	4,719	4,443	4,719	4,443
Goods and services and other				
Goods and services receivable	1,335	1,045	2,246	1,932
Other receivables	5,045	7,088	3,991	4,243
less Impairment allowance	(935)	(840)	(960)	(858)
Net goods and services and other	5,445	7,293	5,277	5,317
Total other receivables	32,383	31,411	32,171	29,446
ACCRUED REVENUE				
Accrued taxation revenue	13,675	13,699	13,675	13,699
Other accrued revenue	641	245	859	399
Total accrued revenue	14,316	13,944	14,534	14,098
Other receivables and accrued revenue	46,699	45,355	46,705	43,544
Total advances paid and receivables	93,513	92,253	94,694	91,738
By maturity:				
Current	51,481	41,394	51,259	39,333
Non-current	42,032	50,859	43,435	52,405
Total by maturity	93,513	92,253	94,694	91,738
By category of financial asset(c):				
<i>Amortised Cost:</i>				
Loans and receivable	13,736	14,373	13,195	11,454
Held to maturity	-	-	-	414
<i>Fair value:</i>				
At fair value through profit and loss	37,268	38,076	39,034	40,055
Available for sale	1,896	1,987	1,896	1,987
Statutory receivable	40,613	37,817	40,569	37,828
Total by category of financial asset	93,513	92,253	94,694	91,738

(a) The 2015-16 comparative has decreased by \$181 million due to a change in the percentage used to calculate the taxes receivable credit amendments allowance.

(b) The 2015-16 comparative has been increased by \$131 million for understated PBS drug recoveries revenue.

(c) There were no material reclassifications between categories of financial assets

Objective

Concessional and commercial loans are provided in pursuit of policy objectives, the largest of which are for student loans provided under the Higher Education Loan Program (HELP). Other receivables include statutory amounts due under tax and social security legislation and contractual receivables for the provision of goods and services.

Recognition and measurement of advances paid and receivables

Advances are recognised initially at fair value plus transaction costs and subsequently measured at amortised cost using the effective interest rate method (less impairment), unless these loans have been designated as 'held at fair value through profit or loss'. Interest is recognised on loans evenly in proportion to the amount outstanding over the period to repayment. Loans designated as 'held at fair value through profit or loss' include the HELP and certain concessional loans. Certain advances subsequently measured at amortised cost are initially measured at fair value using a valuation method as a quoted price was not observable.

Trade debtors, bills of exchange, promissory notes and other receivables are initially recorded at the fair value of the amounts to be received and are subsequently measured at amortised cost using the effective interest rate method, less any impairment loss. Other accrued revenue is recognised when a service has been provided but has not been invoiced. Accrued revenue is recognised at the nominal amounts due. Taxation related accounting policies are disclosed in Note 2A.

Accounting judgement and estimate - Impairment allowance

Collectability of debts is reviewed at balance date. An allowance is made when collection of the debt is judged to be less, rather than more, likely. Bad debts and waivers are written off immediately. The following table reconciles the movement in the provision for doubtful debts, excluding those associated with statutory receivables.

Reconciliation of the impairment allowance^(a)

	General Government		Australian Government	
	Advances and loans \$m	Goods and services and other \$m	Advances and loans \$m	Goods and services and other \$m
Opening balance at 1 July 2015	(235)	(739)	(236)	(754)
less Amounts written off	(17)	(67)	(17)	(66)
less Amounts recovered and reversed	-	(23)	-	(23)
plus Increase/decrease recognised in net surplus	(1)	(191)	(1)	(192)
plus Other movement	(18)	-	(17)	(1)
Closing balance at 30 June 2016	(237)	(840)	(237)	(858)
less Amounts written off	(23)	(99)	(23)	(99)
less Amounts recovered and reversed	-	(6)	-	(6)
plus Increase/decrease recognised in net surplus	(76)	(202)	(76)	(208)
plus Other movement	(1)	2	(2)	1
Closing balance at 30 June 2017	(291)	(935)	(292)	(960)

(a) Excludes statutory receivables such as taxes receivable and personal benefits recoverable.

Accounting judgement and estimate — Credit risk

Credit risk in relation to financial assets, is the risk that a third party will not meet its obligations in accordance with agreed terms. Generally, the Australian Government's maximum exposure to credit risk in relation to each class of advances paid and receivables is the carrying amount of those assets as indicated in the consolidated balance sheet and the majority of Australian Government entities do not have significant exposures to concentrations of credit risk. The following table provides information as to the credit quality of advances paid and receivables (excluding statutory receivables) that are not past due nor individually determined as impaired at the reporting date.

	General Government		Australian Government	
	Advances and loans	Goods and services and other	Advances and loans	Goods and services and other
	\$m	\$m	\$m	\$m
As at 30 June 2017				
Not past due nor impaired	46,729	4,976	47,903	4,718
Past due or impaired	85	1,404	86	1,519
Total	46,814	6,380	47,989	6,237
As at 30 June 2016				
Not past due nor impaired	46,755	6,423	48,051	4,420
Past due or impaired	143	1,710	143	1,755
Total	46,898	8,133	48,194	6,175

The following table provides the ageing of financial receivables that are past due at the end of the reporting date but which were not considered impaired.

	General Government		Australian Government	
	Advances and loans	Goods and services and other	Advances and loans	Goods and services and other
	\$m	\$m	\$m	\$m
As at 30 June 2017				
0 to 30 days	42	160	42	196
30 to 60 days	19	41	19	68
60 to 90 days	9	26	9	33
Over 90 days	15	242	16	262
Total	85	469	86	559
As at 30 June 2016				
0 to 30 days	61	129	61	150
30 to 60 days	21	53	21	73
60 to 90 days	9	39	9	39
Over 90 days	52	649	52	635
Total	143	870	143	897

Loans and receivables designated at fair value through profit and loss predominantly comprise student loans, including those under the HELP.

The recoverability of these loans is factored into the annual fair value actuarial assessment. The actuarial assessment takes into account future income projections, the pattern and timing of repayments and debt not expected to be recovered (DNER). The gross nominal value of HELP loans was \$55,425 million at 30 June 2017 (2016: \$50,432) and no collateral is held. The following table shows the changes in the fair value of HELP loans due to credit risk:

	2017 \$m	2016 \$m
Fair value changes due to credit risk:		
During the period	1,905	2,049
Prior period	15,423	11,244
Cumulative change	17,328	13,293

Based on actuarial assumptions, a one per cent increase/decrease in the DNER percentage would reduce/increase the fair value of new loans by \$75 million and existing loans by \$520 million.

Collateral

The majority of Australian Government entities do not hold collateral to manage credit risk. Cash invested by the Reserve Bank of Australia (RBA) under repurchase agreements is secured by collateral. The RBA also exchanges collateral with counterparties under credit support annexes (CSAs) to manage credit risk on foreign exchange swaps. No collateral was provided at 30 June 2017 (2016: \$2,329 million). In relation to Indigenous Business Australia's gross credit risk, collateral valued at \$1,485 million is held against home and business loans (2016: \$1,491 million). Collateral held may include first ranking mortgages over assets financed by the Export Finance and Insurance Corporation (EFIC), standby documentary credits, third-party guarantees and recourse to companies and company directors. No collateral has currently been called and held at year end.

Accounting judgement and estimate — Fair value

The following tables provide an analysis of advances paid and receivables that are measured at fair value against the AASB 13 fair value hierarchy:

	General Government		Australian Government	
	2017 \$m	2016 \$m	2017 \$m	2016 \$m
Advances paid and receivables at fair value				
Level 2	1,069	1,122	1,607	1,766
Level 3	38,095	38,941	39,323	40,276
Total fair value	39,164	40,063	40,930	42,042

Advances paid and receivables categorised as Level 2 and Level 3 have been valued using a discounted cash flow approach. The primary inputs include principal due and the discount rate. Level 3 receivables are differentiated from Level 2 in that the

Notes to the financial statements

majority (by value) are calculated each year by actuarial assessment. The two main valuation inputs are DNER and the fair value of the remaining receivable, calculated as the present value of projected future cash flows. These balances are sensitive to changes in the underlying assumptions, including the discount rate. For example, the Government's largest receivable, HELP loans, are sensitive to changes in the future Consumer Price Index (CPI) growth, the discount rate (yield curve) and DNER (as illustrated above). The following table reconciles the movement in the balance of advances paid and receivables classified as Level 3.

	General Government		Australian Government	
	2017 \$m	2016 \$m	2017 \$m	2016 \$m
Level 3 advances paid and receivables				
Opening balance at 1 July	38,941	32,434	40,276	33,606
Purchases/Payments	6,996	8,296	7,248	8,827
Sales/Repayments	(2,447)	(2,166)	(2,759)	(2,562)
Gains/(Losses) recognised in net surplus	(5,395)	370	(5,442)	398
Gains/(Losses) recognised in equity	-	7	-	7
Transfers in/(out) of level 3	-	-	-	-
Total fair value	38,095	38,941	39,323	40,276

Note 5B: Investments, loans and placements

	General Government		Australian Government	
	2017 \$m	2016 \$m	2017 \$m	2016 \$m
Gold	-	-	4,146	4,566
Deposits	61,043	33,039	25,751	13,499
Government securities(a)	-	1	157,477	143,116
Residential mortgage backed securities(b)	1,927	2,808	1,927	2,808
International Monetary Fund quota	11,883	12,354	17,005	17,258
Defined benefit superannuation plan assets	-	-	496	34
Collective investment vehicles	57,049	50,017	57,049	50,017
Other interest bearing securities	47,213	39,283	41,214	39,283
Other	14,137	12,492	15,813	16,206
Total investments, loans and placements	193,252	149,994	320,878	286,787
By category of financial asset:				
<i>Amortised Cost:</i>				
Loans and receivable	6,973	8,306	122,114	111,506
Held to maturity	3,355	3,647	3,574	3,725
<i>Fair value:</i>				
At fair value through profit and loss	170,428	125,052	177,611	151,598
Available for sale	12,496	12,989	13,301	15,759
Other(c)	-	-	4,278	4,199
Total by category of financial asset	193,252	149,994	320,878	286,787

(a) Comprise government securities (non-Australian Government) held by the RBA for monetary policy objectives. Government securities held for investment purposes are included in other interest bearing securities.

(b) Investments in residential mortgage backed securities (RMBS) were acquired to support competition in the residential mortgage market. RMBS held for investment purposes are classified elsewhere.

(c) Gold holdings and superannuation plan assets are included in financial assets in the balance sheet but are not financial instruments for the purposes of AASB 7.

Objective

The GGS holds deposits for liquidity management, RMBS for policy purposes and the IMF quota to meet its subscription obligations to the IMF. Investments in collective investment vehicles (CIVs) and other interest bearing liabilities are held by the Australian Government Investment Funds as detailed in Note 9B. The RBA holds gold and government securities in conducting monetary policy.

Recognition and measurement of investments, loans and placements

Gold holdings (including gold on loan to other institutions) are valued at market value at balance date. The Australian Government measures gold at the bid price.

Depending on the type of instrument, deposits are recognised at either nominal or market value. Interest is credited to revenue as it accrues. Deposits have varying terms and rates of interest.

Investments in domestic and foreign government securities, except those contracted for sale under repurchase agreements, are classified by the RBA as 'at fair value through profit or loss'. Securities purchased and contracted for sale under repurchase agreements are classified as 'loans and receivables' and valued at amortised cost. The difference between the purchase and sale price is accrued over the term of the agreement and recognised as interest revenue.

The IMF quota represents Australia's membership subscription to the IMF. The investment is denominated in special drawing rights (SDR) and is valued at the Australian dollar equivalent. SDR is an international type of monetary reserve made up of a basket of national currencies created by the IMF. The fair value in the investment in the IMF quota is classified as 'available for sale' but is measured at cost as fair value cannot be reliably measured due to its unique nature.

The Future Fund employs CIVs as part of its investment strategy. Investments in CIVs are recorded at fair value on the date which consideration is provided to the contractual counterparty under the terms of the relevant subscription agreement.

Other interest bearing securities are primarily held by the Investment Funds (refer Note 9B) and include negotiable certificates of deposit, mortgage and asset backed securities, bank bills and corporate debt securities.

Accounting judgement and estimate — Fair value

The following tables provide an analysis of investments, loans and placements that are measured at fair value.

Notes to the financial statements

	General Government		Australian Government	
	2017 \$m	2016 \$m	2017 \$m	2016 \$m
Investments, loans and placements at fair value				
Level 1	1,258	1,759	72,342	59,098
Level 2	110,431	72,105	51,004	48,105
Level 3	71,235	64,177	71,348	64,319
Total fair value	182,924	138,041	194,694	171,522

Investments, loans and placements categorised as Level 2 have been valued using a market approach based on observable market transactions. Those categorised as Level 3 use the following techniques:

	Valuation technique(s)	Inputs used
IMF Quota	Cost approach	Foreign exchange rates
Collective investment vehicles	Discounted cash flow Market approach	Discount rate Adjusted market transactions
Other interest bearing securities	Discounted cash flow	Discount rate
Other	Net assets of entities	Net assets of entities

Investments, loans and placements categorised as Level 3 that are valued using the net assets technique have been based on either the latest available audited accounts of those entities or internal management accounts because this is the most relevant available information at the end of the period. Due to the diverse nature of the collective investment vehicles, it is not possible to provide a range of inputs and associated sensitivity analysis for those investments of the Future Fund Management Agency (FFMA). For the IMF quota investment, the value of shares are held in foreign currency and converted to an Australian dollar equivalent for inclusion in the financial statements.

The following table reconciles the movement in the balance of investments, loans and placements classified as Level 3.

	General Government		Australian Government	
	2017 \$m	2016 \$m	2017 \$m	2016 \$m
Level 3 investments, loans and placements				
Opening balance at 1 July	64,177	51,906	64,319	52,146
Purchases/Payments	19,974	25,205	19,987	25,286
Sales/Repayments	(13,857)	(14,984)	(14,003)	(15,117)
Gains/(Losses) recognised in net surplus	941	2,054	937	2,054
Gains/(Losses) recognised in equity	-	7	97	(39)
Transfers in/(out) of level 3	-	(11)	11	(11)
Total fair value	71,235	64,177	71,348	64,319

Accounting judgement and estimate — Credit risk

Generally, Australian Government entities' credit risk exposures on investments are limited to highly rated counterparties and their credit risks are very low. Australian Government entities that do have material concentrations of credit risk include:

- the Future Fund's exposure to debt securities issued by domestic banks. The Future Fund Board sets limits on the credit rating of debt instruments to ensure compliance with the Government's investment mandate;
- EFIC's exposure on financing and credit facilities extended to clients, including commercial account exposures of \$1,940 million at 30 June 2017 (2016: \$2,079 million) and national interest account exposures of \$716 million (2016: \$822 million). The EFIC Board also sets limits on the credit rating of counter-parties, which include government entities, authorised deposit-taking institutions and other entities;
- the Australian Office of Financial Management's (AOFM) financial investments including loans to state and territory governments, deposits, securities and RMBS; and
- the RBA's exposure to the issuers of held securities, banks with which the RBA deposits funds and counterparties that are yet to settle transactions.

The Australian Government is also exposed to credit risk on foreign exchange swaps and interest rate derivatives. The net derivative exposure is detailed in Note 9B.

Note 5C: Equity investments

	General Government		Australian Government	
	2017 \$m	2016 \$m	2017 \$m	2016 \$m
Investments - Shares	40,307	39,718	40,724	40,133
Investment in public corporations	46,672	44,735	-	-
Equity accounted investments	3,011	2,777	3,414	2,779
Total equity investments	89,990	87,230	44,138	42,912
By category of financial asset:				
<i>Fair value:</i>				
At fair value through profit and loss	38,603	38,434	38,603	38,434
Available for sale	51,376	48,505	5,120	4,185
Other	11	291	415	293
Total by category of financial asset	89,990	87,230	44,138	42,912

Objective

Shares are held by the Investment Funds as detailed in Note 9B. The Australian Government also holds share equity in international financial institutions and multilateral aid organisations to meet its international policy obligations. The investment in public corporations represents the Government's ownership interest in PFCs such as the RBA, and PNFCs such as Australia Post and the NBN Co Limited (NBN Co).

Recognition and measurement of equity investments

At the whole of government level, equity investments primarily consist of the Future Fund's holdings of listed equities and listed managed investment schemes. These investments are designated as 'financial assets through profit or loss' on acquisition. At the GGS level, equity investments also include the Australian Government's ownership interest in public corporations in the PNFC and PFC sectors. The investments are eliminated at whole of government level. Where the public corporation is a government business enterprise whose principal function is to engage in commercial activities in the private sector, the investment is measured at fair value, applying a discounted cash flow technique. Investments in other public corporations are measured as the Australian Government's proportional interest in the net assets of the public corporation as at the end of the reporting period.

Accounting judgement and estimate — Fair value

In the fair value hierarchy, equity investments were valued as follows:

	General Government		Australian Government	
	2017 \$m	2016 \$m	2017 \$m	2016 \$m
Equity investments at fair value				
Level 1	38,775	38,299	38,775	38,298
Level 2	323	29	323	30
Level 3	50,881	48,611	4,625	4,291
Total fair value	89,979	86,939	43,723	42,619

Equity investments categorised as Level 2 have been valued using a market approach based on observable market transactions. Those categorised as Level 3 use the following techniques:

	Valuation technique(s)	Inputs used
Shares	Values of shares held Net assets of entities	Foreign exchange rates Net assets of entities
Investment in public corporations	Net assets of entities Discounted cash flow	Net assets of entities Weighted average cost of capital
Equity accounted investments	Net assets of entities	Net assets of entities

GGS investments in public corporations are valued using a discounted net cash flow where the corporation generates significant non-government cash inflows and those cash flows can be reliably predicted. Cash flow projections for a forecast period and terminal year are based on management corporate plans and have been discounted using a WACC. A decrease of 0.3 per cent in the discount rate used in the WACC calculations would result in an approximate \$0.2 billion increase in the value of the assets. An increase of 0.3 per cent in the discount rate would result in a decrease of \$0.4 billion in the value of assets.

Notes to the financial statements

For shares in international financial institutions held by the Australian Government, the value is held in foreign currency and converted to an Australian dollar equivalent for inclusion in the financial statements. This information is an observable input.

The following table reconciles the movement in the balance of equity investments classified as Level 3.

	General Government		Australian Government	
	2017	2016	2017	2016
	\$m	\$m	\$m	\$m
Level 3 equity investments				
Opening balance at 1 July	48,611	44,261	4,291	4,059
Purchases/Payments	7,216	7,586	(233)	310
Sales/Repayments	(43)	(98)	(43)	(98)
Gains/(Losses) recognised in net surplus	(48)	(6)	(48)	(6)
Gains/(Losses) recognised in equity	(4,892)	(3,157)	621	1
Transfers in/(out) of level 3	37	25	37	25
Total fair value	50,881	48,611	4,625	4,291

Note 5D: Land and buildings, plant, equipment and infrastructure, heritage and cultural assets and intangibles

Land and buildings, plant, equipment and infrastructure, heritage and cultural assets and intangibles by basis of valuation

Australian Government									
Item	Land \$m	Buildings \$m	Specialist military equipment \$m	Other plant, equipment and infrastructure \$m	Heritage and cultural assets \$m	Investment property \$m	Computer software \$m	Other intangibles \$m	Total \$m
Measurement basis	Fair value	Fair value	Fair value	Fair value	Fair value	Fair value	Cost	Cost	
Net book value at 30 June 2017									
Gross book value	12,237	30,179	59,275	48,363	11,752	281	13,393	4,968	180,448
Accumulated depreciation/amortisation	-	(2,067)	(702)	(5,888)	(122)	-	(7,370)	(631)	(16,780)
Net book value at 30 June 2017	12,237	28,112	58,573	42,475	11,630	281	6,023	4,337	163,668
Assets at fair value by level of the fair value hierarchy:									
Level 2	10,745	4,466	-	1,753	7,621	281	-	-	24,866
Level 3	1,492	23,646	58,573	40,722	4,009	-	-	-	128,442
Fair value at 30 June 2017	12,237	28,112	58,573	42,475	11,630	281	-	-	153,308
Net book value at 30 June 2016									
Gross book value	11,738	29,528	56,217	39,731	11,552	377	12,319	4,703	166,165
Accumulated depreciation/amortisation	-	(1,749)	-	(3,346)	(90)	-	(6,574)	(617)	(12,376)
Net book value at 30 June 2016	11,738	27,779	56,217	36,385	11,462	377	5,745	4,086	153,789
Assets at fair value by level of the fair value hierarchy:									
Level 2	10,323	3,858	-	1,592	7,589	377	-	-	23,739
Level 3	1,415	23,921	56,217	34,793	3,873	-	-	-	120,219
Fair value at 30 June 2016	11,738	27,779	56,217	36,385	11,462	377	-	-	143,958

General Government									
Item	Land \$m	Buildings \$m	Specialist military equipment \$m	Other plant, equipment and infrastructure \$m	Heritage and cultural assets \$m	Investment property \$m	Computer software \$m	Other intangibles \$m	Total \$m
Measurement basis	Fair value	Fair value	Fair value	Fair value	Fair value	Fair value	Cost	Cost	
Net book value at 30 June 2017									
Gross book value	11,002	27,537	59,275	17,592	11,752	112	9,425	3,958	140,653
Accumulated depreciation/amortisation	-	(1,845)	(702)	(2,579)	(122)	-	(5,572)	(359)	(11,179)
Net book value at 30 June 2017	11,002	25,692	58,573	15,013	11,630	112	3,853	3,599	129,474
Assets at fair value by level of the fair value hierarchy:									
Level 2	9,813	3,633	-	1,021	7,621	112	-	-	22,200
Level 3	1,189	22,059	58,573	13,992	4,009	-	-	-	99,822
Fair value at 30 June 2017	11,002	25,692	58,573	15,013	11,630	112	-	-	122,022
Net book value at 30 June 2016									
Gross book value	10,620	27,209	56,217	16,891	11,552	164	9,137	3,750	135,540
Accumulated depreciation/amortisation	-	(1,662)	-	(2,610)	(90)	-	(5,232)	(374)	(9,968)
Net book value at 30 June 2016	10,620	25,547	56,217	14,281	11,462	164	3,905	3,376	125,572
Assets at fair value by level of the fair value hierarchy:									
Level 2	9,463	3,179	-	888	7,589	164	-	-	21,283
Level 3	1,157	22,368	56,217	13,393	3,873	-	-	-	97,008
Fair value at 30 June 2016	10,620	25,547	56,217	14,281	11,462	164	-	-	118,291

Reconciliation of movement in land and buildings, plant, equipment and infrastructure, heritage and cultural assets and intangibles

Australian Government									
Item	Land \$m	Buildings \$m	Specialist military equipment \$m	Other plant, equipment and infrastructure \$m	Heritage and cultural assets \$m	Investment property \$m	Computer software \$m	Other intangibles \$m	Total \$m
Net book value at 1 July 2015	10,953	27,877	51,889	31,307	11,332	387	5,079	3,599	142,423
Additions:									
Purchases and entity acquisitions	31	1,638	6,753	6,923	109	16	465	248	16,183
Acquisition by finance lease	1	5	-	687	-	-	-	-	693
Internally developed	-	-	-	-	-	-	1,366	-	1,366
Revaluations: write-ups	915	166	1,143	273	475	41	-	-	3,013
Depreciation/amortisation expense	-	(1,644)	(3,968)	(2,821)	(104)	-	(1,242)	(79)	(9,858)
Recoverable amount write-downs	8	(13)	(214)	(70)	(4)	-	(55)	(57)	(405)
Reversal of write-downs	-	8	-	4	-	-	(1)	358	369
Other movements	(139)	(193)	623	138	(346)	(37)	136	17	199
Disposals	(31)	(65)	(9)	(56)	-	(30)	(3)	-	(194)
As at 30 June 2016	11,738	27,779	56,217	36,385	11,462	377	5,745	4,086	153,789
Additions:									
Purchases and entity acquisitions	103	1,958	6,197	7,841	70	52	1,858	230	18,309
Acquisition by finance lease	4	37	-	1,308	-	-	-	-	1,349
Internally developed	-	-	-	-	-	-	-	-	-
Revaluations: write-ups	881	108	431	98	203	6	-	-	1,727
Depreciation/amortisation expense	-	(1,694)	(4,046)	(3,220)	(100)	-	(1,394)	(105)	(10,559)
Recoverable amount write-downs	(346)	(49)	(292)	(112)	(10)	(3)	(153)	(7)	(972)
Reversal of write-downs	-	8	11	32	4	-	-	76	131
Other movements	(109)	72	70	212	1	(76)	(31)	57	196
Disposals	(34)	(107)	(15)	(69)	-	(75)	(2)	-	(302)
As at 30 June 2017	12,237	28,112	58,573	42,475	11,630	281	6,023	4,337	163,668

Notes to the financial statements

General Government									
Item	Land \$m	Buildings \$m	Specialist military equipment \$m	Other plant, equipment and infrastructure \$m	Heritage and cultural assets \$m	Investment property \$m	Computer software \$m	Other intangibles \$m	Total \$m
Net book value at 1 July 2015	9,942	25,639	51,889	13,623	11,332	187	3,689	2,855	119,156
Additions:									
Purchases and entity acquisitions	17	1,479	6,753	1,691	109	15	395	210	10,669
Acquisition by finance lease	1	5	-	159	-	-	-	-	165
Internally developed	-	-	-	-	-	-	800	-	800
Revaluations: write-ups	844	231	1,143	195	475	9	-	-	2,897
Depreciation/amortisation expense	-	(1,499)	(3,968)	(1,654)	(104)	-	(913)	(49)	(8,187)
Recoverable amount write-downs	-	(41)	(214)	(35)	(4)	-	(47)	(11)	(352)
Reversal of write-downs	-	8	-	1	-	-	(1)	358	366
Other movements	(155)	(223)	623	348	(346)	(43)	(15)	13	202
Disposals	(29)	(52)	(9)	(47)	-	(4)	(3)	-	(144)
As at 30 June 2016	10,620	25,547	56,217	14,281	11,462	164	3,905	3,376	125,572
Additions:									
Purchases and entity acquisitions	86	1,810	6,197	1,975	70	44	1,114	188	11,484
Acquisition by finance lease	4	37	-	16	-	-	-	-	57
Internally developed	-	-	-	-	-	-	-	-	-
Revaluations: write-ups	753	(77)	431	192	203	1	-	-	1,503
Depreciation/amortisation expense	-	(1,533)	(4,046)	(1,585)	(100)	-	(948)	(78)	(8,290)
Recoverable amount write-downs	(344)	(45)	(292)	(102)	(10)	(2)	(153)	(4)	(952)
Reversal of write-downs	-	8	11	31	4	-	-	76	130
Other movements	(88)	52	70	242	1	(30)	(64)	41	224
Disposals	(29)	(107)	(15)	(37)	-	(65)	(1)	-	(254)
As at 30 June 2017	11,002	25,692	58,573	15,013	11,630	112	3,853	3,599	129,474

Objective

Property, plant and equipment are held for operational purposes as is computer software. The Department of Defence (Defence) is the largest holder of non-financial assets. Heritage and cultural assets include the cultural collections of the national gallery, library and museums while other intangibles include the Australian Government's portfolio of water entitlements acquired and which are held for environmental water purposes.

Recognition and measurement of non-financial assets

Property, plant and equipment are stated at fair value. Certain small entities and public corporations may adopt a cost basis in their own financial statements. Where the difference is material to the CFS, an adjustment is made on consolidation.

Where available, the fair value of property, plant and equipment is determined by reference to market-based evidence, for example, the market value of similar properties. If there is no market-based evidence of fair value because of the specialised nature of the item of property, plant or equipment and the item is rarely sold, fair value is estimated using an income (net present value/discounted cash flows) or a DRC approach.

The cost of restoration or removal is provided for in the measurement of property, plant and equipment when a legal or constructive obligation exists. These costs include obligations relating to the dismantling, removal, remediation, restoration and other expenditure associated with the Australian Government's fixed assets or site fit-outs. Restoration provisions are initially recorded when a reliable estimate of the costs to be incurred can be determined and are discounted to present value. Estimates are based upon a review of lease contracts, legal requirements, historical information, and expected future costs. Any changes to these estimates are adjusted on a progressive basis as required.

The Australian Government's intangibles comprise internally developed software for internal use, water entitlements, and intangible assets acquired by public corporations (PNFCs and PFCs). Intangibles are carried at cost. Water entitlements are classified as indefinite life intangibles and are therefore subject to annual impairment testing. Goodwill and other indefinite life intangibles are not amortised but tested for impairment on an annual basis. When public corporations acquire investments in controlled, jointly controlled or associated entities, and pay an amount greater than the fair value of the net identifiable assets of the entity, this excess is recognised as goodwill.

Accounting judgement and estimate - Fair value

The analysis of land and buildings, plant, equipment and infrastructure, heritage and cultural assets and intangibles by basis of valuation includes a disaggregation of asset values against the AASB 13 fair value hierarchy.

Non-financial assets categorised as Level 2 and 3 have been valued using the following techniques:

	Category	Valuation technique(s)	Inputs used
Land	2	Market approach	Market transactions
		Income approach	Future cash flows
	3	Market approach	Adjusted market transactions
		Income approach	Future cash flows
Buildings	2	Market approach	Market transactions
	2	Income approach	Future cash flows
	2	Cost approach	Replacement cost of new assets
	3	Cost approach	Replacement cost of new assets
			Consumed economic benefit
	3	Market approach	Adjusted market transactions
	3	Income approach	Future cash flows
Specialist military equipment	3	Market approach	Adjusted market transactions
		Cost approach	Replacement cost of new assets
			Consumed economic benefit
Other	2	Market approach	Market transactions
infrastructure plant and equipment	2	Cost approach	Replacement cost of new assets
	3	Cost approach	Replacement cost of new assets
			Consumed economic benefit
		Income Approach	Future cash flows
		Market approach	Adjusted market transactions
Heritage and cultural assets	2	Market approach	Market transactions
	2	Cost approach	Replacement cost of new assets
	3	Cost approach	Replacement cost of new assets
			Consumed economic benefit
	3	Market approach	Adjusted market transactions
Other	2	Market approach	Market transactions

Specialist military equipment (SME) is valued internally by the Defence applying a range of valuation techniques and inputs as outlined above. Other asset classes were predominantly independently valued. Valuations are undertaken with sufficient frequency to ensure that the carrying amounts of assets do not differ materially from the assets' fair values as at the reporting date.

Level 3 non-financial assets valued using the market approach utilise market transactions of similar assets adjusted using professional judgement for each individual asset's characteristics to determine fair value. Non-financial assets that do not transact with enough frequency and transparency to develop objective opinions of value from observable market evidence have been valued utilising the DRC approach, unless this cannot be reliably calculated.

Details pertaining to valuations can be found in the audited financial statements of individual Australian Government controlled entities.

Reconciliation for recurring Level 3 fair value measurements

The following table reconciles the movement in the balance of non-financial assets classified as Level 3.

Item	General Government					Australian Government				
	Land	Buildings	Specialist	Other	Heritage	Land	Buildings	Specialist	Other	Heritage
			Military	IPE	& cultural			Military	IPE	& cultural
	\$m	\$m	Equipment		assets	\$m	\$m	Equipment		assets
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Level 3 fair value at 1 July 2015	845	21,986	51,889	12,360	3,615	1,056	23,338	51,889	29,279	3,615
Purchases/Payments	203	1,530	6,753	1,494	39	208	1,667	6,753	7,048	39
Sales/Repayments	(2)	(59)	(9)	(46)	-	(2)	(60)	(9)	(49)	-
Gains/(Losses) recognised in net surplus	(3)	(1,354)	(3,559)	(1,466)	(83)	5	(1,418)	(3,559)	(2,516)	(83)
Gains/(Losses) recognised in equity	66	10	1,143	403	(252)	86	85	1,143	474	(252)
Transfers in/(out) of level 3	48	255	-	648	554	62	309	-	557	554
As at 30 June 2016	1,157	22,368	56,217	13,393	3,873	1,415	23,921	56,217	34,793	3,873
Purchases/Payments	4	1,683	6,197	1,807	35	20	1,886	6,197	9,043	35
Sales/Repayments	-	(120)	(15)	(33)	-	-	(229)	(15)	(65)	-
Gains/(Losses) recognised in net surplus	(697)	(1,451)	(4,257)	(1,462)	(66)	(689)	(1,550)	(4,257)	(2,953)	(66)
Gains/(Losses) recognised in equity	734	(128)	431	215	147	775	(89)	431	102	147
Transfers in/(out) of level 3	(9)	(293)	-	72	20	(29)	(293)	-	(198)	20
As at 30 June 2017	1,189	22,059	58,573	13,992	4,009	1,492	23,646	58,573	40,722	4,009

Contractual capital commitments

At the reporting date, commitments for capital works comprised:

	General Government		Australian Government	
	2017 \$m	2016 \$m	2017 \$m	2016 \$m
Capital Commitments				
Buildings	2,019	2,570	2,065	2,623
Specialist Military Equipment	14,329	15,064	14,329	15,064
Other plant, equipment and intangibles	2,494	2,757	9,588	10,844
Total capital commitments	18,842	20,391	25,982	28,531

Leased assets

Australian Government entities lease assets under a number of finance leases. As at 30 June 2017, the carrying value of leased assets included \$1,232 million in land and buildings (2016: \$1,314 million) and \$5,294 million in plant and equipment (2016: \$4,234 million). GGS leased assets included \$1,213 million in land and buildings (2016: \$1,294 million) and \$323 million in plant and equipment (2016: \$362 million). Refer Note 6D for accounting policy disclosure on finance leases.

Assets under construction

Australian Government assets under construction include \$1,746 million (2016: \$1,301 million) in land and buildings, \$16,379 million (2016: \$14,260 million) in SME and \$5,726 million (2016: \$5,886 million) in other plant, equipment and infrastructure (including computer software and intangibles). GGS assets under construction include \$1,687 million (2016: \$1,147 million) in land and buildings, \$16,379 million (2016: \$14,260 million) in SME and \$1,813 million (2016: \$1,679 million) in other plant, equipment and infrastructure (including computer software and intangibles).

Note 5E: Inventories

	General Government		Australian Government	
	2017 \$m	2016 \$m	2017 \$m	2016 \$m
Inventories held for sale				
Finished goods(a)	841	890	934	976
Raw materials and stores	54	58	67	73
Work in progress	378	406	381	417
Total inventories held for sale	1,273	1,354	1,382	1,466
Consumable stores and inventories held for distribution	7,275	7,213	7,307	7,245
Total inventories	8,548	8,567	8,689	8,711

(a) Finished goods include \$261 million valued at net realisable value (2016: \$218 million).

Notes to the financial statements

Objective

Inventories are primarily held for use in operations and not for sale. Inventories include explosive ordnance, general spares and consumables, and strategic stockpiles held for distribution.

Recognition and measurement of inventories

Inventories held for sale are valued at the lower of cost and net realisable value. Inventories held for distribution are measured at cost, adjusted for any loss of service potential. Quantities on hand and items of inventory are periodically evaluated with excess and obsolete inventory recorded as a reduction to inventory and an expense.

Note 5F: Other non-financial assets

	General Government		Australian Government	
	2017	2016	2017	2016
	\$m	\$m	\$m	\$m
Biological assets	54	49	54	49
Assets held for sale	195	257	336	257
Prepayments	3,547	4,219	3,822	4,382
Other	60	113	68	177
Total other non-financial assets	3,856	4,638	4,280	4,865

Note 5G: Assets by function

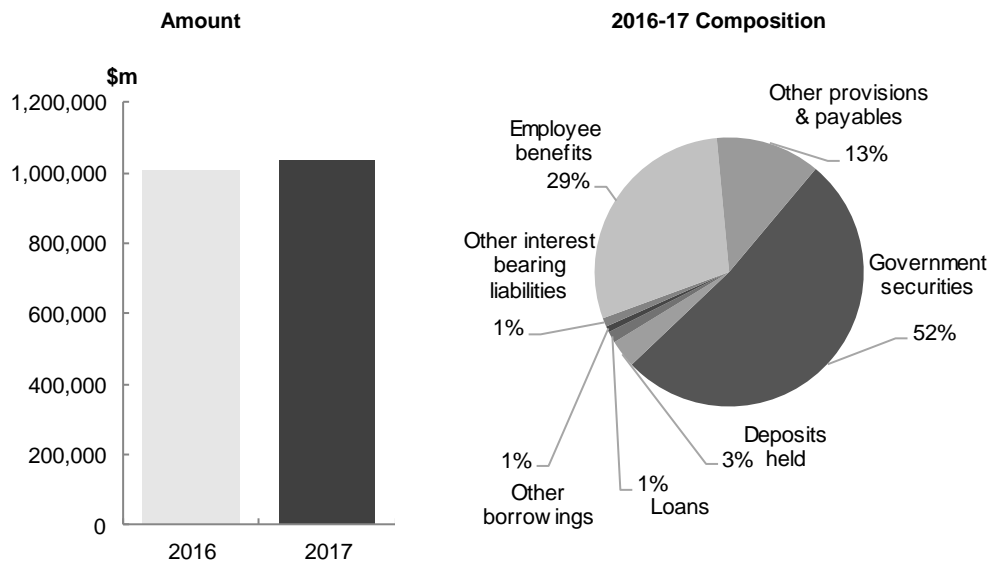
	General Government		Australian Government	
	2017	2016	2017	2016
	\$m	\$m	\$m	\$m
General public services	225,234	206,181	223,772	205,313
Defence	95,521	93,810	95,234	93,736
Public order and safety	3,056	2,678	3,056	2,678
Education	39,551	39,577	39,551	39,577
Health	2,153	2,429	2,126	2,408
Social security and welfare	8,896	8,225	8,596	7,930
Housing and community amenities	4,737	4,792	4,737	4,792
Recreation and culture	15,867	14,013	15,867	14,013
Fuel and energy	2,352	1,458	2,352	1,458
Agriculture, forestry and fishing	4,937	4,539	4,937	4,539
Mining, manufacturing and construction	526	530	2,329	2,566
Transport and communication	24,692	20,505	36,825	29,245
Other economic affairs	26,256	31,875	167,411	162,150
Other purposes(a)	69,995	41,280	35,837	24,109
Total assets	523,773	471,892	642,630	594,514

(a) Cash and deposits that are not allocated to other functions are included in the 'other purposes' function.

Refer to Note 3F for a description of each function.

Note 6: Liabilities

Liabilities are obligations to another entity to provide economic value as a result of past transactions and activities undertaken by Australian Government entities. The value and composition of Australian Government liabilities are as follows:



Interest bearing liabilities

Interest bearing liabilities are classified in accordance with the ABS GFS Manual as follows:

- **Deposits held** (refer Note 6A) are predominantly the liability for cash and deposits held with the RBA.
- **Government securities** (refer Note 6B) are issued by the Australian Government in the form of Treasury Bonds, Treasury Indexed Bonds and Treasury Notes.
- **Loans** (refer Note 6C) comprise promissory notes issued to the IMF and other multi-lateral organisations to meet Australia's international financial obligations, bonds issued by public corporations, and other loans.
- **Other borrowings** (refer Note 6D) cover obligations under finance lease arrangements.
- **Other interest bearing liabilities** (refer Note 6E) include Australia's liability to the IMF as denominated in SDR, repurchase agreements entered into by the RBA, and other debt not elsewhere classified.

The Australian Government also discloses interest bearing liabilities and other financial liabilities by category of financial instrument. Financial liabilities are allocated into the following categories:

Notes to the financial statements

Financial liabilities at fair value through profit or loss	Other liabilities
Financial liabilities held for trading, and those designated at fair value through profit or loss. Derivatives are categorised as held for trading unless they are designated as hedges	Non-derivative financial liabilities measured at amortised cost

Financial liabilities are derecognised when the obligation under the contract is discharged, cancelled or expired.

Provisions and payables

Provisions and payables reported in the balance sheet are summarised into the following notes:

- **Employee benefits** (refer Note 6F) capture amounts owing to current and former employees, the largest of which is the Australian Government obligation for the unfunded proportion of the public sector and military superannuation schemes.
- **Other payables** (refer Note 6G) include year-end obligations for goods and services, grants and unearned income.
- **Other provisions** (refer Note 6H) include a liability for currency notes issued by the RBA, and provisions for benefits and claims, grants, subsidies and tax refunds.

Note 6A: Deposit liabilities

	General Government		Australian Government	
	2017 \$m	2016 \$m	2017 \$m	2016 \$m
Exchange settlement funds	-	-	28,215	24,745
Drawing accounts held with the Reserve Bank of Australia	-	-	540	321
State governments	-	-	232	121
Monies held in trust	213	211	213	211
Foreign governments	-	-	5,127	4,810
Other	5	6	434	532
Total deposit liabilities	218	217	34,761	30,740

Objective

Exchange settlement accounts are provided by the RBA for financial institutions to settle financial obligations arising from the clearing of payments, while state and foreign governments may also hold deposits at the RBA. Deposits held by Commonwealth entities are not reported as these are internal to Government and eliminated on consolidation.

Recognition and measurement of deposits held

Deposits include deposits at call and term deposits and are classified as financial liabilities. Deposit balances are shown at their amortised cost, which is equivalent to their face value. Interest is accrued over the term of deposits and is paid periodically or at maturity.

Liquidity risk on deposits held

Liquidity risk is the risk that the Australian Government will not be able to meet its obligations as they fall due. The outflows disclosed in the following table represent the contractual undiscounted cash flows relating to deposits held at the reporting date:

	General Government		Australian Government	
	2017 \$m	2016 \$m	2017 \$m	2016 \$m
Exposure to liquidity risk on deposits held				
On demand	211	212	32,560	29,363
1 year or less	7	6	2,201	1,377
Total	218	218	34,761	30,740

Note 6B: Government securities

	General Government		Australian Government	
	2017 \$m	2016 \$m	2017 \$m	2016 \$m
Treasury bonds	487,486	434,333	487,232	434,333
Treasury notes	3,489	4,986	3,489	4,986
Treasury indexed bonds	44,718	41,417	44,718	41,417
Other(a)	11,561	2,625	6	21
Total government securities	547,254	483,361	535,445	480,757

(a) Includes securities held by Australian Government PFCs.

Objective

Australian Government securities (AGS) are issued through the AOFM to meet the Australian Government's financing needs.

Recognition and measurement of government securities

AGS are measured at fair value and categorised at fair value through profit or loss. AGS are categorised 'Level 1' in the fair value hierarchy. Where a security is issued at a premium or discount, the premium or discount is recognised at that time and included in the book value of the liability.

Liquidity risk on government securities

The outflows disclosed in the following table represent the contractual undiscounted cash flows relating to government securities issued at the reporting date:

Notes to the financial statements

	General Government		Australian Government	
	2017 \$m	2016 \$m	2017 \$m	2016 \$m
Exposure to liquidity risk on government securities				
1 year or less	53,355	33,840	52,204	33,840
1 to 5 years	234,524	233,046	229,464	230,981
More than 5 years	352,672	276,948	345,063	276,344
Total	640,551	543,834	626,731	541,165

Note 6C: Loans

	General Government		Australian Government	
	2017 \$m	2016 \$m	2017 \$m	2016 \$m
Bills of exchange and promissory notes	9,627	9,651	10,665	10,618
Bonds (non-Treasury)	-	-	2,479	2,732
Loans	552	700	956	1,311
Total loans	10,179	10,351	14,100	14,661
By maturity:				
Current	153	111	988	1,278
Non-current	10,026	10,240	13,112	13,383
Total by maturity	10,179	10,351	14,100	14,661
By category and valuation of financial liability:				
Amortised Cost	10,179	10,351	11,786	12,170
Fair value:				
Level 2	-	-	2,208	2,357
Level 3	-	-	106	134
Total by category and valuation	10,179	10,351	14,100	14,661

Objective

General Government promissory notes are issued to the IMF and international financial institutions and relate to the undrawn paid in capital subscriptions to these international organisations. Outside the GGS, EFIC borrows to fund lending activities.

Recognition and measurement of loans

Loans are initially recognised at fair value plus any transaction costs that are directly attributable to the issue, and are subsequently measured at either amortised cost or at fair value through profit or loss. Any differences between the final amounts paid to discharge the loan and the initial loan proceeds (including transaction costs) are recognised in the operating statement over the borrowing period using the effective interest method.

Accounting judgements and estimates – Fair value

Loans designated fair value through profit or loss and categorised as Level 2 and Level 3 are limited to EFIC borrowings. The fair value designation reduces the

accounting mismatch that would otherwise arise with derivatives that have been entered by EFIC to hedge transactions. The fair value of these loans have been determined using market interest rates and valuation techniques which incorporate discounted cash flows.

Liquidity risk on loans

The outflows disclosed in the following table represent the contractual undiscounted cash flows relating to loans issued at the reporting date:

	General Government		Australian Government	
	2017 \$m	2016 \$m	2017 \$m	2016 \$m
Exposure to liquidity risk on loans				
1 year or less	177	223	1,467	1,912
1 to 5 years	283	602	2,370	3,014
More than 5 years	9,720	10,076	10,708	11,221
Total	10,180	10,900	14,545	16,147

Note 6D: Other borrowings

	General Government		Australian Government	
	2017 \$m	2016 \$m	2017 \$m	2016 \$m
Finance lease liabilities as at the reporting date are reconciled to the lease liability as follows:				
Not later than one year	162	154	812	641
Later than one year and not later than five years	743	713	2,929	2,254
Later than five years	2,142	2,272	15,606	12,161
Minimum lease payments	3,047	3,139	19,347	15,056
less Future finance charges	1,429	1,532	11,832	9,027
Total finance lease liabilities	1,618	1,607	7,515	6,029
Finance lease liabilities maturity schedule:				
Current	61	52	195	184
Non-current	1,557	1,555	7,320	5,845
Total finance lease liabilities by maturity	1,618	1,607	7,515	6,029

Objective

The NBN Co holds right of use licences to access Telstra's network infrastructure. Australian Government entities also enter into finance leases primarily for property and technology.

Recognition and measurement of other borrowings (finance leases)

Finance leases effectively transfer from the lessor to the lessee substantially all the risks and rewards incidental to ownership of leased assets. Where an asset is acquired by means of a finance lease, the asset is capitalised at either the fair value of the leased asset or, if lower, the present value of minimum lease payments at the inception of the lease contract. A corresponding liability is recognised at the same time in other

borrowings. Lease payments are allocated between the principal component and the interest expense. The discount rate used is the interest rate implicit in the lease.

Note 6E: Other interest bearing liabilities

	General Government		Australian Government	
	2017 \$m	2016 \$m	2017 \$m	2016 \$m
Swap principal payable	771	653	2,184	2,896
Amounts outstanding under repurchase agreements	-	-	1,580	4,526
Special reserve - IMF special drawing rights	5,574	5,795	5,574	5,795
Finance lease incentives	11	11	11	11
Other	3	14	1,536	1,823
Total other interest bearing liabilities	6,359	6,473	10,885	15,051
By category and valuation of financial liability:				
Amortised cost	5,588	5,812	9,809	12,148
Fair value:				
Level 1	20	-	20	200
Level 2	751	661	1,056	2,703
Total by category and valuation	6,359	6,473	10,885	15,051

Objective

The IMF SDR liability reflects the Government's obligation to repay to the IMF the cumulative allocations of SDRs provided to Australia since joining the IMF. The RBA enters into repurchase agreements in carrying out its operations to manage domestic liquidity and foreign reserves. Refer Note 9B for a discussion of swap agreements.

Recognition and measurement of other interest bearing liabilities

The IMF SDR allocation liability reflects the current value in Australian dollars of the Australian Government's liability to repay Australia's cumulative allocations of SDRs. Interest is payable to the IMF in relation to the amount by which Australia's SDR holdings are below Australia's net cumulative allocations.

In the course of financial market operations, the RBA engages in repurchase agreements involving foreign and Australian dollar marketable securities. Securities sold but contracted for purchase under repurchase agreements are reported within the relevant investment category and are valued at market prices. The counterparty obligation to repurchase is reported as an interest bearing liability and is measured at amortised cost. The difference between the sale and purchase price is recognised as interest expense over the term of the agreement.

Accounting judgements and estimates – Fair value

The fair value of other interest bearing liabilities categorised as Level 2 have been determined using market interest rates and valuation techniques which incorporate discounted cash flows.

Liquidity risk on other interest bearing liabilities

The outflows disclosed in the following table represent the contractual undiscounted cash flows relating to other interest bearing liabilities at the reporting date:

	General Government		Australian Government	
	2017 \$m	2016 \$m	2017 \$m	2016 \$m
Exposure to liquidity risk on other debt				
On demand	16	2	18	2
1 year or less	761	656	5,783	10,811
1 to 5 years	-	-	1,987	-
More than 5 years	5,582	5,815	6,207	6,404
Total	6,359	6,473	13,995	17,217

Note 6F: Employee benefits

	General Government		Australian Government	
	2017 \$m	2016 \$m	2017 \$m	2016 \$m
Total superannuation liability	279,459	314,228	279,799	314,958
Other employee liabilities				
Leave and other entitlements	7,603	7,754	10,128	10,388
Accrued salaries and wages	250	192	401	264
Workers compensation claims	2,794	3,164	2,975	3,324
Separations and redundancies	112	126	328	446
Military compensation	7,099	6,737	7,099	6,737
Other	276	329	372	399
Total other employee liabilities	18,134	18,302	21,303	21,558
Total employee and superannuation liabilities	297,593	332,530	301,102	336,516

Objective

The management of the Australian Government's accumulated superannuation liability is discussed in Note 9C. Other employee liabilities include provisions for the accumulated leave entitlements of Australian Government employees, claims for workers compensation (managed through Comcare) and military compensation (managed through the Department of Veterans' Affairs (DVA)).

Recognition and measurement of employee benefits

The superannuation liability represents the present value of the Australian Government's unfunded liability to employees for past services as estimated by the actuaries of the respective superannuation plans.

Notes to the financial statements

Liabilities for 'short-term employee benefits' (as defined in AASB 119 *Employee Benefits* (AASB 119)) and termination benefits due within 12 months of balance date are measured at their nominal amounts. The nominal amount is calculated with regard to the rates expected to be paid on settlement of the liability. The liability for leave and other entitlements includes provision for annual leave and long service leave.

Liabilities for services rendered by employees are recognised at the reporting date to the extent that they have not been settled. All other employee benefits liabilities are measured at the present value of the estimated future cash outflows to be made in respect of services provided by employees up to the reporting date.

Accounting judgements and estimates — employee benefits

The liability for long service leave is calculated using expected future increases in wages and salary rates including related on-costs and is discounted using applicable government bond rates. In determining the present value of the liability, attrition rates, pay increases through promotion and inflation are taken into account. The liability for long service leave has been determined by reference to the work of actuaries.

The provision for workers compensation claims represents an estimate of the present value of future payments in respect of claims for events occurring before 30 June 2017 with a 75 per cent probability of sufficiency. The expected future payments are discounted to present value using a risk free rate. The expected future payments include claims reported but not yet paid, claims incurred but not yet reported, and anticipated claims handling costs. The 2016-17 Annual Report for Comcare includes greater detail on this provision.

The military compensation provision represents an estimate of the present value of future payments in respect of claims under the *Military Rehabilitation and Compensation Act 2004* and the *Safety, Rehabilitation and Compensation Act 1988* arising from service rendered before 30 June 2017. The provision is calculated by discounting future payments using a yield curve derived from the yields on Commonwealth bonds of various durations as at 30 June 2017.

The military compensation provision is subject to inherent sources of uncertainty arising from a range of factors, including that claims may not be received until many years after the event and subsequent payments for income support, health and rehabilitation services can extend over a long period of time. The 2016-17 DVA Annual Report details the assumptions and areas of uncertainty underpinning the actuarial estimation of the military provision.

Note 6G: Other payables

	General Government		Australian Government	
	2017 \$m	2016 \$m	2017 \$m	2016 \$m
Payables				
Supplier payables				
Trade creditors and accrued expenses	4,702	4,527	7,171	7,196
Operating lease rental payable	442	430	442	430
Other creditors	1,135	1,293	2,738	1,500
Total supplier payables	6,279	6,250	10,351	9,126
Total personal benefits payable	3,086	3,820	3,086	3,820
Total subsidies payable	549	539	549	539
Grants payable				
State and territory governments	792	198	792	198
Private sector	532	566	532	566
Overseas	2,198	1,455	2,198	1,455
Other	400	440	402	440
Total grants payable	3,922	2,659	3,924	2,659
Other payables				
Unearned income	2,395	866	2,773	1,230
Other	1,187	1,060	1,276	1,148
Total other payables	3,582	1,926	4,049	2,378
Total payables	17,418	15,194	21,959	18,522
By category and valuation of financial liability:				
Amortised cost - Statutory liability	3,732	4,452	3,732	4,452
Amortised cost	9,327	8,599	13,480	11,553
Fair value:				
Level 2	-	26	-	26
Level 3	1,964	1,251	1,974	1,261
Unearned income	2,395	866	2,773	1,230
Total by category and valuation	17,418	15,194	21,959	18,522

Objective

Supplier payables are mostly managed in accordance with the Commonwealth Procurement Rules (CPRs). The CPRs are issued under section 105B(1) of the PGPA Act and apply to all non-corporate Commonwealth entities and prescribed corporate Commonwealth entities. The CPRs set out rules and principles for achieving value for money in Commonwealth procurement. Settlement is usually within 30 days. Grant payables are governed by the CGRGs, with some exceptions such as state and territory grants. The CGRGs are issued under section 105C of the PGPA Act and establish the policy framework under which grants are to be provided. Personal benefit payables represent amounts for which recipients are currently entitled to payment at the reporting date.

Recognition and measurement of other payables

Trade and other payables, including accruals, are recorded when Australian Government entities are required to make future payments as a result of a

Notes to the financial statements

purchase of assets or services. Payables are initially recognised at fair value and are subsequently measured at amortised cost.

Accounting judgements and estimates – Fair value

Payables classified at fair value through profit or loss include multilateral grants and contributions payable which are valued at level 3 applying a discounted cash flow method using a discounted rate range and a 10-year government bond rate. The following table reconciles the movement in the balance of Level 3 payables.

	General Government		Australian Government	
	2017 \$m	2016 \$m	2017 \$m	2016 \$m
Level 3 payables				
Opening balance at 1 July	1,251	1,483	1,261	1,493
Sales/Repayments	(402)	(342)	(402)	(343)
Gains/(Losses) recognised in net surplus	1,115	110	1,115	111
Total fair value	1,964	1,251	1,974	1,261

Liquidity risk on other payables

The undiscounted cash flows relating to other contractual payables at the reporting date are provided below.

	General Government		Australian Government	
	2017 \$m	2016 \$m	2017 \$m	2016 \$m
Exposure to suppliers payables				
On demand	204	102	90	198
1 year or less	5,942	6,069	9,987	8,814
1 to 5 years	107	78	248	113
More than 5 years	26	1	26	1
Total	6,279	6,250	10,351	9,126
Exposure to contractual grants				
On demand	62	11	62	11
1 year or less	2,212	1,963	2,214	1,905
1 to 5 years	1,117	742	1,117	742
More than 5 years	534	168	534	168
Total	3,925	2,884	3,927	2,826
Exposure to other contractual payables				
On demand	61	127	71	157
1 year or less	757	609	778	453
1 to 5 years	131	184	155	184
More than 5 years	7	16	46	15
Total	956	936	1,050	809

Note 6H: Other provisions

	General Government		Australian Government	
	2017 \$m	2016 \$m	2017 \$m	2016 \$m
Australian currency on issue	-	-	73,623	70,209
Other provisions				
Grant provisions	7,622	9,109	7,622	9,109
Provision for outstanding benefits and claims	16,174	16,113	16,174	16,113
Provision for tax refunds(a)	2,815	2,833	2,815	2,833
Provision for restoration, decommissioning and makegood	2,372	2,546	2,598	2,651
Subsidy provisions	4,175	4,053	4,175	4,053
Other	871	568	1,121	845
Total other provisions	34,029	35,222	34,505	35,604
Total provisions	34,029	35,222	108,128	105,813

(a) The 2015-16 comparative has decreased by \$139 million due to a change in the percentage used to calculate the provision for tax refunds.

Objective

The RBA's objective in issuing Australian note currency is to maintain public confidence in the supply, security and quality of Australian banknotes. The provisions for outstanding benefits and claims, taxation refunds and for subsidies are for amounts to which recipients are entitled under legislation, but which are not yet payable. This includes tax, social security and health legislation. Grant provisions are typically incurred in pursuit of Government policy objectives, and include the provision for unfunded university superannuation and provisions for recovery from identified disasters. The provision for restoration, decommissioning and make good arises where the Government has a legal or constructive obligation to remediate a site, including Defence sites and sites on Antarctica and sub-Antarctic Macquarie Island.

Recognition and measurement of other provisions

Australian currency issued represents a liability of the RBA in favour of the holder. Currency issued for circulation, including demonetised currency, is measured at face value. When the RBA issues currency notes to the commercial banks it receives, in exchange, funds equal to the full face value of the notes issued.

Non-employee provisions are recognised at the best estimate of the expenditure required to settle the present obligation at the reporting date. If the effect is material, provisions are determined by discounting the expected future cash flows (adjusted for expected future risks) required to settle the obligation at a rate that reflects current market assessments of the time value of money and the risks specific to the liability.

The calculation of provisions is subject to the volatility of economic assumptions used, in particular, the discount rate and the effects of inflation as well as the impact of variations in payment patterns. In calculating the estimated cost of future payments for each provision, actuarial advice is generally obtained. Given the uniqueness of a

Notes to the financial statements

number of the Australian Government provisions and the use of actuarial assumptions, there can be an element of uncertainty in the estimate.

Reconciliation of movement in provisions

	General Government	Australian Government
	2017	2017
	\$m	\$m
Balance of provisions at 1 July	35,222	105,813
Provisions made during the year	16,061	19,649
Provisions used during the year	(16,041)	(16,105)
Provisions remeasured, reversed or unwound during the year	(1,213)	(1,229)
Balance of provisions at 30 June	34,029	108,128

Note 7: Net revaluation increases/(decreases)

	General Government		Australian Government	
	2017 \$m	2016 \$m	2017 \$m	2016 \$m
Financial assets				
Equity investments	(5,324)	(2,970)	(106)	640
Non-financial assets				
Land	748	847	876	921
Buildings	(131)	208	54	139
Specialist military equipment	431	1,157	431	1,157
Other infrastructure, plant and equipment	232	227	136	305
Heritage and cultural assets	193	474	193	474
Provision for restoration, decommissioning and makegood	15	(47)	15	(47)
Total non-financial assets	1,488	2,866	1,705	2,949
Total revaluation increases/(decreases)	(3,836)	(104)	1,599	3,589

Note 8: Reconciliation of cash

Reconciliation of net operating balance to net cash flows from operating activities

	General Government		Australian Government	
	2017 \$m	2016 \$m	2017 \$m	2016 \$m
Net operating balance	(32,083)	(34,396)	(36,609)	(39,246)
<i>less</i> Revenues not providing cash				
Other	921	4,551	1,023	4,551
Total revenues not providing cash	921	4,551	1,023	4,551
<i>plus</i> Expenses not requiring cash				
Increase in employee entitlements	9,965	10,108	10,517	10,856
Depreciation/amortisation expense	8,214	8,132	10,456	9,773
Mutually agreed writedowns	1,203	1,193	1,203	1,193
Other non-cash expenses	2,428	1,031	2,893	1,033
Total expenses not requiring cash	21,810	20,464	25,069	22,855
<i>plus</i> Cash provided by working capital items				
(Increase)/Decrease in receivables	(8,676)	(7,937)	(10,664)	(1,509)
(Increase)/Decrease in inventories	(460)	(461)	(465)	(498)
(Increase)/Decrease in other financial assets	(376)	(787)	(1,111)	(665)
(Increase)/Decrease in other non-financial assets	131	37	79	(22)
Increase/(Decrease) in benefits, subsidies and grants payable	(3,029)	(454)	(3,028)	(588)
Increase/(Decrease) in supplier payables	1,004	(72)	1,517	(1,479)
Increase/(Decrease) in other provisions and payables	1,948	1,844	2,167	(2,138)
Total cash provided/(used) by working capital items	(9,458)	(7,830)	(11,505)	(6,899)
equals Net cash from/(used by) operating activities	(20,652)	(26,313)	(24,068)	(27,841)

Notes to the financial statements

Reconciliation of cash at the end of the reporting period as shown in the cash flow statement to the related items in the balance sheet

Cash at the end of the reporting period as shown in the Australian Government and GGS cash flow statement is equal to 'cash and deposits' as reported in the Australian Government and GGS balance sheet

Recognition, measurement and classification of cash and deposits

Cash includes: cash at bank and on hand, short term deposits at call and investments in short-term money market instruments that are used in the cash management function on a day-to-day basis, net of outstanding bank overdrafts. Cash and cash equivalents includes notes and coins held and any deposits in bank accounts with an original maturity of three months or less that are readily convertible to known amounts of cash and subject to insignificant risk of changes in value. Deposits at call, which are held for longer-term investment purposes, are classified as investments. Cash is recognised at its nominal amount.

In the statement of cash flows, certain flows are reported on a net basis as this is considered to provide more reliable and comparable information to users. Cash flows reported on a net basis include taxation receipts (net of refunds), the pass-through of member superannuation payments and cash flows undertaken for liquidity or financing purposes.

Note 9: Risks

The assets and liabilities in the CFS incorporate assumptions and judgements based on the best information available at the date of signing. The judgements and estimates made by Australian Government entities that have the most significant impact on the amounts recorded in the financial statements are disclosed in Note 1.8. In addition to these, there are a range of factors that may influence the amounts ultimately realised or settled in future years that relate to past events. The disclosure of these factors increases the transparency of the risks to the Government's financial position. These risks have been grouped into the following disclosures:

- **Contingencies** (refer Note 9A) comprise possible obligations or assets arising from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events.
- **Financial instrument market risk** disclosures (refer Note 9B) concern the contractual arrangements that the Australian Government has entered into for policy, liquidity or financing purposes.
- **Defined benefit superannuation plans** (refer Note 9C) explain the characteristics of the major defined benefit plans and risks associated with them, and describes how the plans may affect the amount, timing and uncertainty of the Australian Government's future cash flows. The Future Fund is a long-term investment fund that is designed to enhance the ability of the Australian Government to discharge unfunded superannuation liabilities.

Consistent with the amounts recognised in the financial statements, the disclosures are based on the policies, events and arrangements up to the reporting date and do not include policy decisions announced in the 2016-17 Budget papers which have not yet been enacted or implemented.

Note 9A: Contingencies

Contingencies are possible obligations or assets arising from past events whose existence will be confirmed by future events. Material Australian Government contingencies include the following.

Indemnities, guarantees and warranties

An indemnity is a legally binding promise whereby the Commonwealth undertakes to accept the risk of loss or damage another party may suffer. A guarantee is a promise whereby the Commonwealth assumes responsibility for the debt, or performance obligations of, another party on default of its obligation. A warranty is a promise whereby the Commonwealth provides certain assurances to the other party to an arrangement.

Non-corporate Commonwealth entities are bound by Section 60 of the PGPA Act in relation to the provision of indemnities, guarantees or warranties on behalf of the

Notes to the financial statements

Commonwealth. Arrangements above \$30 million or considered more than remote must be approved by Cabinet, the National Security Committee of Cabinet, the Prime Minister, or a written determination of the Minister for Finance (Finance Minister). Corporate Commonwealth entities are legally separate from the Commonwealth and can act in their own right subject to rules that may be prescribed under Section 61 of the PGPA Act.

The following table reconciles the movement in quantifiable indemnities, guarantees and warranties:

	General Government		Australian Government	
	2017 \$m	2016(a) \$m	2017 \$m	2016(a) \$m
Opening balance as at 1 July	32,228	32,805	33,364	34,373
Increases	3,509	2,810	3,945	2,810
Re-measurement	(488)	(3,355)	(496)	(3,545)
Liabilities/Assets crystallised	(35)	-	(35)	-
Expired	(32)	(32)	(377)	(274)
As at 30 June	35,182	32,228	36,401	33,364

(a) The 2015-16 comparative has been adjusted to include the maximum contingent liability associated with the Aged Care Accommodation Bond Guarantee Scheme and the matching payment arrangements for emergency pest and disease response. While these schemes have been activated, it is highly unlikely that all providers would default. Previously, these contingencies were disclosed as unquantifiable.

In addition to the above, the Commonwealth has entered into a number of indemnities, guarantees and warranties, for which the exposure cannot be reliably quantified, including some that are unlimited. The following table lists the major unquantifiable indemnities, guarantees and warranties and the administering portfolio. Greater detail on each contingency can be found in the annual report for the respective portfolio departments and entities:

Unquantifiable indemnities, guarantees and warranties	Administering portfolio
<i>Terrorism related.</i> Under the <i>Terrorism Insurance Act 2003</i> the Australian Reinsurance Pool Corporation administers a terrorism reinsurance scheme for commercial property and associated business interruption losses arising from a Declared Terrorism Incident. The Australian Government guarantees payment above the private sector retrocession balance up to a maximum of \$10 billion. The Australian Government also operates the Australian Victims of Terrorism Overseas Payment Scheme to provide financial assistance to Australians who are victims of a declared overseas terrorist act.	Treasury / Attorney-General's
<i>Medical indemnities.</i> The Australian Government indemnifies potential liabilities under the <i>Medical Indemnity Act 2002</i> and the <i>Midwife Professional Indemnity (Commonwealth Contribution) Scheme Act 2010</i> . The Australian Government also indemnifies	Health

Unquantifiable indemnities, guarantees and warranties	Administering portfolio
certain health-care organisations for adverse events arising from the provision of agreed services or health-care products (including blood products and vaccines).	
<i>Garrison and welfare services and immigration detention services.</i> Comprising limited liability contracts negotiated with providers of garrison and welfare services at regional processing centres; and immigration detention and related services in Australia.	Immigration and Border Protection
<i>Snowy Hydro Limited water releases.</i> A joint indemnity with the NSW and Victorian governments to Snowy Hydro Limited for liabilities arising from water releases in the Snowy River below Jindabyne Dam, where these releases are in accordance with the water licence and related regulatory arrangements.	Industry, Innovation and Science
<i>Officers and directors assisting the Commonwealth in relation to asset sales, reviews and other arrangements.</i> From time to time, the Australian Government has provided warranties, undertakings and indemnities (indemnities) to directors, committee members, advisers, officers and/or staff of organisations for activities undertaken in good faith in assisting the Commonwealth in relation to asset sales, reviews and other arrangements.	Various

In addition to the above, the following contingencies are considered remote but are significant to the Australian Government financial position.

Significant but remote indemnities, guarantees and warranties	Administering portfolio
<i>Financial Claims Scheme - Deposits.</i> Authorised under the <i>Banking Act 1959</i> and guarantees deposits up to \$250,000 at eligible authorised deposit-taking institutions. When last estimated as at 31 December 2016, deposits eligible for coverage under the Financial Claims Scheme were approximately \$850 billion (31 December 2015: \$810 billion).	Treasury
<i>Financial Claims Scheme - Insurance.</i> The Policyholder Compensation Facility established under the <i>Insurance Act 1973</i> provides a mechanism for making payments to eligible beneficiaries with a valid claim against a failed general insurer.	Treasury

Notes to the financial statements

The Australian Government has also entered into significant but remote guarantees in respect of the NBN Co financial obligations to Telstra and Optus, further details of which are contained in the 2016-17 Annual Report for the Department of Communications and the Arts. Other guarantees and indemnities considered remote are excluded from this disclosure.

Uncalled shares and capital subscriptions

The Australian Government holds uncalled capital subscriptions to the European Bank for Reconstruction and Development (EBRD), the International Bank for Reconstruction and Development (IBRD), the Multilateral Investment Guarantee Agency (MIGA) and the Asian Development Bank (ADB). The following table reconciles the movement in uncalled shares and capital subscriptions:

	General Government		Australian Government	
	2017 \$m	2016 \$m	2017 \$m	2016 \$m
Opening balance as at 1 July	18,664	15,504	18,731	15,569
Increases	-	3,977	-	3,977
Re-measurement	(635)	(817)	(637)	(815)
As at 30 June	18,029	18,664	18,094	18,731

Claims and proceedings

At any time various Australian Government entities are subject to claims and legal actions that are pending court or other processes. The majority of Australian Government entities are insured through the Australian Government general insurance fund, Comcover. The following table reconciles the movement in quantifiable contingencies for claims and damages:

	General Government		Australian Government	
	2017 \$m	2016 \$m	2017 \$m	2016 \$m
Opening balance as at 1 July	184	113	186	151
Increases	33	60	43	64
Re-measurement	(66)	34	(65)	33
Liabilities/Assets crystallised	(14)	(8)	(20)	(12)
Expired	(5)	(15)	(7)	(50)
As at 30 June	132	184	137	186

In addition to the above, the Commonwealth is subject to claims for which the exposure cannot be reliably quantified as the claim is either not sufficiently progressed and / or the costs are not reliable.

The Australian Government announced the establishment of the Commonwealth Redress Scheme for Survivors of Institutional Child Sexual Abuse (the Scheme) on 4 November 2016 to provide survivors with a monetary payment, psychological counselling and, if requested, a direct personal acknowledgement and response from the responsible institution. Costs associated with the Scheme are considered unquantifiable at this time.

Proceedings have commenced against the Australian Government for losses due to the temporary suspension of exports of live animals to Indonesia that was put in place on 7 June 2011.

Greater detail on each contingency can be found in the annual report for the respective portfolio departments and entities.

Remediation and decontamination

From time to time, the Australian Government may have ownership of properties that have a potential or possible environmental and associated concern. Where this is the case, further reviews may be undertaken to determine the extent, nature and estimated costs of remediation, if required. Financial provision has been made for the estimated costs in restoring, decontaminating and decommissioning property. However, for sites where the potential costs cannot be quantified, the obligations have been assessed as remote contingencies. This includes contingencies for Defence properties, the Goongong Dam lease agreement with the Australian Capital Territory Government and the clean-up of the former British atomic test site at Maralinga.

The Australian Government has also provided a number of indemnities or other guarantees in relation to the costs associated with the management and clean-up of sites following incidents or other events. These include potential incidents arising from liquid fuel emergencies, ship sourced marine pollution, and carbon dioxide leakage from the Gorgon liquefied natural gas and carbon dioxide storage project.

Other contingencies

The RBA provides a Committed Liquidity Facility (CLF) to eligible authorised deposit-taking institutions (ADIs) as part of Australia's implementation of the Basel III liquidity standards. The CLF provides ADIs with a contractual commitment to funding under repurchase agreements with the RBA, subject to certain conditions. It was established to ensure that ADIs are able to meet their liquidity requirements under Basel III and was made available because the supply of High Quality Liquid Assets is lower in Australia than is typical in other major countries.

The following table reconciles the movement in the CLF and other quantifiable contingencies:

	General Government		Australian Government	
	2017	2016	2017	2016
	\$m	\$m	\$m	\$m
Opening balance as at 1 July	4,538	3,810	229,018	258,834
Increases	2,379	681	2,380	681
Re-measurement	547	652	(31,070)	(29,892)
Expired	(1,968)	(605)	(1,968)	(605)
As at 30 June	5,496	4,538	198,360	229,018

Contingent assets

The following table reconciles the movement in quantifiable contingent assets.

	General Government		Australian Government	
	2017	2016	2017	2016
	\$m	\$m	\$m	\$m
Opening balance as at 1 July	127	117	137	128
Increases	45	18	48	18
Re-measurement	41	68	39	68
Liabilities/Assets crystallised	(63)	(74)	(62)	(74)
Expired	(9)	(2)	(12)	(3)
As at 30 June	141	127	150	137

Additionally, at any time various Australian Government entities are pursuing various other claims and legal actions that are pending court or other processes.

Note 9B: Financial instruments

The notes to the balance sheet include information on the classification of financial assets and liabilities under AASB 7. AASB 7 also requires disclosure of items of income, expenses, gains and losses by financial instrument category. This disclosure is to assist users to understand the financial performance results, given the different measurement basis applied to each category.

	General Government		Australian Government	
	2017	2016	2017	2016
	\$m	\$m	\$m	\$m
FINANCIAL ASSETS				
Loans and receivables				
Interest income	386	455	1,882	1,017
Net gain/(loss) on disposal	-	-	-	6
Net foreign exchange gain/(loss)	(33)	(17)	(35)	(20)
Write-down and impairment	(580)	(398)	(587)	(400)
Interest expenses	-	(7)	-	(7)
Net gain/(loss)	(227)	33	1,260	596
Available for sale				
Interest income	16	5	35	31
Dividend income	1,568	3,466	50	53
Net gain/(loss) on disposal	14	-	14	-
Net foreign exchange gain/(loss)	(406)	181	(406)	181
Fair value movements in equity	(5,324)	(2,970)	(106)	641
Net gain/(loss)	(4,132)	682	(413)	906
Held for trading				
Net foreign exchange gain/(loss)	-	-	(1,288)	1,822
Net gain/(loss)	-	-	(1,288)	1,822
Fair value through profit or loss				
Interest income	2,768	4,316	2,480	5,171
Net gain/(loss) on disposal	4,976	6,052	4,409	5,890
Dividend income	3,430	2,774	3,506	2,810
Net foreign exchange gain/(loss)	1,653	430	1,653	430
Interest expenses	-	(406)	-	(406)
Other gains/(losses)	(6,210)	(4,384)	(6,155)	(4,364)
Net gain/(loss)	6,617	8,782	5,893	9,531
Held to maturity				
Interest income	128	122	131	122
Net foreign exchange gain/(loss)	(1)	-	(1)	-
Net gain/(loss)	127	122	130	122
FINANCIAL LIABILITIES				
Held at fair value through profit or loss				
Interest expenses	17,078	18,068	17,145	17,681
Net foreign exchange gain/(loss)	5	-	5	-
Other gains/(losses)	19,380	(17,913)	19,381	(17,915)
Net gain/(loss) held at fair value through profit or loss	36,463	155	36,531	(234)
Other financial liabilities				
Interest expenses	451	429	982	1,407
Net foreign exchange gain/(loss)	222	(164)	222	(166)
Net gain/(loss) other financial liabilities	673	265	1,204	1,241

Notes to the financial statements

For assets and liabilities held at fair value through profit or loss, interest and dividends are reported separately from gains and losses.

The Australian Government is exposed to the following financial risks:

Interest rate risk	Foreign exchange risk	Other price risk	Credit risk	Liquidity risk
The risk to fair value or future cash flows from changes in market interest rates	The risk to fair value or future cash flows from changes in foreign exchange rates	The risk to fair value or future cash flows from other market changes	The risk of financial loss to the Australian Government if a customer or counterparty fails to meet its contractual obligations	The risk that the Australian Government will encounter difficulty in meeting its financial obligations

Credit risk and liquidity risk are specific to the Australian Government's dealing with its counter-parties and are disclosed in the respective notes to the Balance Sheet. This note focuses on the market risks to which the Australian Government has material exposures, being interest rate risk, foreign exchange risk and equity price risk.

(a) Overview of market risk management in the Australian Government

The management of market risk by Australian Government entities is governed by the PGPA Act and, for some entities such as the RBA, specific legislation. The three sectors of government (GGS, PNFC and PFC) hold financial instruments for different purposes and with different financial risk exposures:

General Government Sector

The GGS holds financial instruments for:

- financing and liquidity management;
- strengthening the Australian Government's long-term financial position through the establishment of Investment Funds;
- policy purposes through the provision of concessional loans and other instruments; and
- to meet the Australian Government international commitments to the IMF and other multi-lateral organisations.

Financing and liquidity management

Commonwealth entities subject to the PGPA Act are required to draw down monies on an 'as-needed' basis. As a general principle, Commonwealth GGS entities cannot invest public monies except as delegated under section 58 of the PGPA Act or authorised by legislation. Corporate Commonwealth entities subject to the PGPA Act are also restricted in how they can invest monies that are surplus to operational

requirements. As a general principle, surplus money may only be placed on deposit with a bank or invested directly in securities issued or guaranteed by the Australian Government, a state or a territory, unless an exemption is approved by the Finance Minister. Financial assets held by the majority of GGS entities are non-interest bearing, including trade receivables, or have fixed interest and do not fluctuate due to changes in the market interest rate.

The majority of GGS entities are also prohibited from borrowing. The AOFM is responsible for debt management and for ensuring that the Australian Government has sufficient cash to meet its needs. To do this, the AOFM manages the issuance of government securities, including medium to long-term Treasury Bonds and Treasury Indexed Bonds, and short-term Treasury Notes. The AOFM also ensures that cash proceeds not required for immediate purposes are invested in term deposits with the RBA.

Investment Funds

The Australian Government has also established a number of Investment Funds to meet future liabilities or provide financing resources for critical areas of infrastructure and research. The Investment Funds currently comprise of the:

- ***Future Fund*** – a long-term investment fund that is designed to enhance the ability of the Australian Government to discharge unfunded superannuation liabilities expected after 2020;
- ***Nation Building Funds*** – designed to provide financing resources for critical areas of infrastructure;
- ***DisabilityCare Australia Fund (DCAF)*** – an investment fund to enhance the Commonwealth's ability to reimburse the Commonwealth, States and Territories for expenditure incurred in relation to the *National Disability Insurance Scheme Act 2013*; and
- ***Medical Research Future Fund*** – a financial asset fund established to provide an endowment that will support medical research and innovation into the future.

All the Funds operate under the same governance arrangements with the Future Fund Board of Guardians having responsibility for investing decisions and managing the funds' assets. The Board is administratively supported by the FFMA and the Department of Finance advises the Finance Minister on various aspects of the funds, including policy, legislative and governance matters. Each Fund has an investment mandate that is determined by the Australian Government under legislation.

Advances and investments for policy purposes

The GGS also holds certain financial assets and liabilities for public policy purposes, rather than liquidity management. These include:

- loans and investments to facilitate increased flows of finance into certain industries or sectors and loans provided on concessional terms in pursuit of

Notes to the financial statements

policy objectives. For example, income contingent student and other loans, and loans to fund critical infrastructure;

- loans to state and territory governments under previous Commonwealth-State financing arrangements;
- equity contributions to public corporations for infrastructure development; and
- RMBS to support competition in the Australian residential mortgage market.

International commitments

Australia has shareholdings in international financial institutions (IFIs) and multilateral development banks, including the IMF and the World Bank Group's IBRD, IDA, International Finance Corporation and the MIGA. Australia also has shareholdings in the ADB, the Asian Infrastructure Investment Bank and the EBRD.

In addition to the shareholdings recognised as financial assets, Australia conducts financial transactions with these institutions to manage existing obligations.

Public Financial Corporations

The PFC sector comprises the RBA and similar entities. The RBA is Australia's central bank with responsibility for monetary policy. Its role is set out in the *Reserve Bank Act 1959*. The RBA also holds Australia's foreign currency reserves, operates Australia's main high value payments system, provides banking services to the Australian Government and designs, produces and issues Australia's banknotes. In undertaking these functions, the RBA has significant exposures to interest rate and currency risk. EFIC is also involved in lending and borrowing activities with exposures to interest rate and currency risk.

In the PFC sector the market operations of the RBA and EFIC make up the majority of the sector's exposure to market risk.

Public Non-Financial Corporations

The PNFC entities primarily hold financial instruments as a direct result of operations, including trade receivables and payables, or to finance operations. Certain entities in the PNFC sector also enter into derivative transactions, including interest rate swaps, forward currency contracts and commodity swap contracts. The purpose is to manage the interest rate, currency and commodity risks arising from the entity's operations and sources of finance.

(b) Interest rate risk**Exposure**

The Australian Government's main exposures to interest rate risk are reflected in the fair value of Commonwealth Government securities on issue, and in the fair value and future cash flows associated with debt securities held by the Investment Funds and the RBA. The Australian Government's exposure to interest rate risk on relevant asset and liability classes is set out below:

	2017			Total \$m
	Fixed interest rate \$m	Floating interest rate \$m	Non- interest bearing \$m	
Financial assets				
Advances paid and receivables (non statutory)	5,455	40,076	49,163	94,694
<i>Investments, loans and placements:</i>				
Deposits	25,483	268	-	25,751
Government securities	157,361	116	-	157,477
Residential mortgage backed securities	-	1,927	-	1,927
Collective investment vehicles	827	-	56,222	57,049
Other interest bearing securities	32,227	8,795	191	41,213
Total financial assets	221,353	51,182	105,576	378,111
Financial liabilities				
Deposits held	34,761	-	-	34,761
Government securities	535,445	-	-	535,445
Loans	2,594	1,829	9,677	14,100
Total financial liabilities	572,800	1,829	9,677	584,306
Net exposure to interest rate risk	(351,447)	49,353	95,899	(206,195)

For the comparative period, the exposure to interest rate risk was as follows:

	2016			Total \$m
	Fixed interest rate \$m	Floating interest rate \$m	Non- interest bearing \$m	
Financial assets				
Advances paid and receivables (non statutory)	4,522	41,127	46,089	91,738
<i>Investments, loans and placements:</i>				
Deposits	13,293	206	-	13,499
Government securities	143,116	-	-	143,116
Residential mortgage backed securities	-	2,808	-	2,808
Collective investment vehicles	391	-	49,626	50,017
Other interest bearing securities	24,674	14,609	-	39,283
Total financial assets	185,996	58,750	95,715	340,461
Financial liabilities				
Deposits held	30,740	-	-	30,740
Government securities	480,757	-	-	480,757
Loans	3,181	1,830	9,651	14,661
Total financial liabilities	514,678	1,830	9,651	526,158
Net exposure to interest rate risk	(328,681)	56,921	86,064	(185,697)

Notes to the financial statements

Sensitivity

The following table provides a sensitivity analysis for the individual interest rate exposures where the variability is material to the CFS. For fixed interest rate instruments that are carried at fair value, changes in fair value only are considered relevant while for fixed rate instruments that are carried at amortised cost, sensitivity to interest rate risk is not considered relevant.

Individually material exposures	Impact on operating result and net worth			
	2017		2016	
	+ 30 basis points	- 30 basis points	+ 30 basis points	- 30 basis points
	\$m	\$m	\$m	\$m
Financial assets				
Investment funds	(571)	587	(566)	579
RBA Government securities	(133)	133	(145)	145
Financial liabilities				
Government securities	9,685	(9,991)	8,683	(8,949)

In the above sensitivity analysis, there is an equivalent impact on operating result and net worth as the identified instruments are not classified as 'available for sale' with fair value changes through other comprehensive income.

The value of concessional loans held at fair value, such as the HELP, are also impacted by changes in market interest rates, however, interest rate changes will have no impact on the future cash flows or principal amounts at maturity.

Management of interest rate risk

The *Loans Securities Act 1919* provides authority to enter into swaps in the management of the debt portfolio. However, the Australian Government does not currently use interest rate swaps in the management of the debt portfolio with the cost of debt instead managed through debt issuance and investment activities.

The Future Fund's investment managers utilise interest rate derivative contracts to manage the exposure to interest rates and to ensure it remains within approved limits. At 30 June 2017, the notional value of open futures contracts and swaps totalled \$17,598 million (2016: \$19,918 million).

The other Investment Funds had open positions in exchange traded interest rate futures contracts and interest rate swap agreements at the reporting date. The notional value of investments in 'sell international interest rate futures contracts' was negative \$1,436 million (2016: negative \$1,762 million).

The RBA faces interest rate risk because most of its assets are financial assets that have a fixed income stream, such as Australian dollar and foreign currency securities. The RBA uses interest rate futures contracts on overseas exchanges to manage interest rate risk on its portfolio of foreign government securities.

(c) Foreign exchange risk**Exposure**

The Australian Government's main exposures to foreign exchange risk are reflected in the foreign currency investments of the RBA and the Investment Funds, foreign currency facilities provided by EFIC, and in the value of financial assets and liabilities held with International Financial Institutions and Development Banks.

The Australian Government's material holdings of foreign exchange assets and liabilities is set out below by class at the reported amount.

	Foreign currency	
	2017 \$m	2016 \$m
Financial assets		
Advances paid and receivables	4,540	4,976
<i>Investments, loans and placements:</i>		
Deposits	20,534	10,506
Government securities	57,857	57,391
International monetary fund quota	17,005	17,258
Collective investment vehicles	40,385	38,080
Other interest bearing securities	20,686	20,847
Equity investments	31,792	29,694
Total financial assets	192,799	178,752
Financial liabilities		
Loans	10,949	10,923
Other interest bearing liabilities	7,387	10,653
Total financial liabilities	18,336	21,576
Net foreign exchange holdings	174,463	157,176

The foreign exchange holdings of the RBA, Investment Funds and EFIC are in multiple currencies but predominantly USD while the financial assets and liabilities held with IFIs and development banks are denominated in USD, EUR and SDR.

In addition to the above, certain Commonwealth entities are also exposed to foreign exchange risks on sales and procurement contracts denominated in foreign currency. These are not considered material to the Australian Government balance sheet.

Sensitivity

Given the Australian Government's net holdings of foreign currency assets, an appreciation in the Australian dollar exchange rate results in valuation losses, while a depreciation leads to valuation gains. The following table provides a sensitivity analysis for the individual foreign exchange rate exposures where the variability is material to the CFS. The analysis is based on a +/- 10.2 per cent (2016: 10.5 per cent) change in the value of the Australian dollar exchange rate as at 30 June 2017.

Notes to the financial statements

Individually material exposures	Impact on operating result and net worth			
	2017		2016	
	+ 10.2	- 10.2	+ 10.5	- 10.5
	per cent	per cent	per cent	per cent
	\$m	\$m	\$m	\$m
Foreign financial assets				
Investment funds	(6,931)	6,794	(6,671)	6,549
RBA Government securities	(4,809)	5,878	(5,087)	6,218
IMF and IFI Investments	(1,472)	1,807	(1,552)	1,917
Foreign financial liabilities				
IMF SDR and loans liabilities	642	(522)	687	(557)

Management of foreign exchange risk

In the GGS, entities are responsible for the management of their foreign exchange risks. However, it is Australian Government policy that GGS entities do not act to reduce the foreign exchange risk that they would otherwise face in the course of their business arrangements. Unless exempted by the Finance Minister, entities are not permitted to undertake any form of hedging.

Rather than allowing entities to enter into individual hedging arrangements, the Australian Government has taken a decision to self-insure foreign exchange exposures and not accept the additional costs associated with hedging. This is based on the view that, as a large organisation, the Australian Government has a broad spread of assets and liabilities and a range of revenues and expenses, both geographically and across classes, which assists in the management of movements in exchange rates.

Certain entities have been granted an exemption from the policy, including the Future Fund. The Future Fund Board sets a target exposure to foreign currency risk for the Future Fund and other Investment Funds with risk managed utilising forward foreign exchange contracts and other derivatives.

The Australian Government is exposed to foreign currency denominated in US dollars, Euro and SDR on financial assets and liabilities held with IFIs and development banks. These exposures are not hedged as these instruments are held for policy purposes.

In the PFC sector, the RBA's holdings of foreign currency-denominated assets expose the bank and the Australian Government balance sheet to fluctuations in exchange rates. As these assets serve a policy function, the RBA does not seek to eliminate this exchange rate exposure. Rather, the RBA mitigates it by diversifying foreign currency assets across several currencies. The RBA also undertakes foreign currency swaps with market counterparties both to assist daily domestic liquidity management and in managing foreign reserve assets.

EFIC eliminates foreign exchange risk on its foreign currency facilities by borrowing in the same currency as the assets or, typically, by borrowing in another currency and using cross-currency swaps and other foreign exchange instruments to remove the foreign exchange exposure.

The following table shows the net reduction in foreign exchange exposure through foreign exchange derivative contracts undertaken by the RBA, Future Fund and other Investment Funds, and EFIC.

	2017 \$m	2016 \$m
Forward exchange contracts and foreign currency swaps		
Sell foreign currency	(123,148)	(92,495)
Purchase foreign currency	57,186	48,868
Net forward exchange contracts and foreign currency swaps	(65,962)	(43,627)

(d) Other price risk

Exposure

The Australian Government is exposed to equity price risks arising from equity investments, primarily through the investments of the Future Fund and other Investment Funds. The equity price risk is the risk that the value of the equity portfolio will decrease as a result of changes in the levels of equity indices and the price of individual stocks. The Investment Funds hold equities at fair value through profit or loss. The following table provides the Investment Funds' equity price risk exposure at the reporting date.

	2017 \$m	2016 \$m
Equity price risk exposure		
Domestic equities and managed investment	8,676	10,111
International equities and managed investment schemes	30,364	28,436
Total equity price risk exposure	39,040	38,547

The Investment Funds are also exposed to other price risks arising from investments in CIVs.

Sensitivity

The following table demonstrates the impact on the net operating balance and net worth of a +/- 20 per cent change in domestic equities and a +/- 15 per cent change in international equities held by the Investment Funds.

Individually material exposures	Impact on operating result and net worth			
	2017		2016	
	+ 20 & 15 per cent	- 20 & 15 per cent	+ 20 & 15 per cent	- 20 & 15 per cent
	\$m	\$m	\$m	\$m
Domestic equities	2,979	(2,955)	2,875	(2,820)
International equities	10,779	(10,278)	9,473	(9,053)
Total	13,758	(13,233)	12,348	(11,873)

Notes to the financial statements

Management of other price risk

The Future Fund and other Investment Funds had open positions in exchange traded equity futures contracts and equity option contracts as at the reporting date. The exchange traded equity futures, swaps and options are used to manage market exposures to equity price risk to ensure that asset allocations remain within the Future Fund Board's approved limits. The notional value of the open contracts and their fair market value are set out below.

	2017		2016	
	Notional value	Fair value	Notional value	Fair value
	\$m	\$m	\$m	\$m
Buy domestic equity futures contract	53	-	138	-
Sell domestic equity futures contract	-	-	(1,925)	3
Buy international equity futures contract	445	(2)	2,638	(142)
Sell international equity futures contract	(24)	-	(2,612)	(22)
Buy equity index swap agreements	-	-	-	-
Sell equity index swap agreements	-	-	-	-
International volatility index call options	-	-	2	-
International volatility index put options	(1)	-	2	-
Domestic equity index put options	-	-	-	-
Domestic equity index call options	168	3	142	13
International equity index put options	(725)	19	(115)	7
International equity index call options	5,665	387	2,488	238
Total	5,581	407	758	97

Note 9C: Defined benefit superannuation plans

Accounting policy

The Australian Government recognises actuarial gains or losses immediately in other comprehensive income in the year in which they occur. Interest on the net defined benefit liability is recognised in profit and loss. The return on plan assets excluding the amount included in interest income is recognised in other comprehensive income.

Superannuation liabilities are calculated annually as the present value of future benefit obligations less the fair value of scheme assets. The rate used to discount future benefits is determined by reference to the long-term government bond rate. The long-term government bond rate increased from 2.7 per cent at 30 June 2016 to between 3 and 3.5 per cent at 30 June 2017 (excluding smaller schemes classified in 'other'), significantly decreasing the superannuation liability in comparison to the prior year.

Overview of schemes

GGs employees will usually be members of the Commonwealth Superannuation Scheme (CSS), Public Sector Superannuation Scheme (PSS) or the Public Sector Superannuation Accumulation Plan (PSSAP). The PSS and the CSS are closed to new

members, with the PSSAP available to most new employees who commenced employment on or after 1 July 2005. The CSS and PSS provide defined benefits. The PSSAP provides fully funded accumulation benefits to members, with no ongoing liability to the Australian Government. The CSS disclosures include the CSS 1976 scheme and the preceding CSS 1922 scheme.

Australian Government military personnel are members of the Defence Force Retirement and Death Benefits Scheme (DFRDB) or the Military Superannuation Benefits Scheme (MSBS). Both schemes are defined benefit schemes. The DFRDB was closed to new members in 1991. The MSBS was closed to new members from 1 July 2016. A new accumulation scheme, ADF Super, commenced for new military personnel who entered on or after 1 July 2016. The DFRDB disclosures include the DFRDB and the preceding Defence Forces Retirement Benefits Scheme.

In addition to the above, several schemes have been established under legislation for specified personnel, including the Parliamentary Contributory Superannuation Scheme (PCSS) (closed to new members since 9 October 2004), Judges' Pension Scheme, Governor-General Pension Scheme, Federal Circuit Court Judges Death and Disability Scheme and the North American and London, Dublin and New Delhi pension schemes.

Several Public Corporations are responsible for defined benefit schemes for their employees, including:

Scheme title	Responsible entities
AvSuper(a)	Airservices Australia
Australia Post Superannuation Scheme (APSS)(a)	Australia Post Corporation
State Authorities Superannuation Scheme (SASS), State Superannuation Scheme (SSS), State Authorities Non-contributory Superannuation Scheme (SASCS)(a)	Australian Rail Track Corporation
Australian Submarine Corporation Superannuation Fund (ASCSF)	ASC Pty Ltd
Reserve Bank of Australia Officers' Superannuation Fund (OSF) and UK Pension Scheme (UKPS)(a)	RBA

(a) As required under AASB 119, the rate used to discount the superannuation liability is determined by reference to market yields on government bonds. Certain for-profit public corporations have applied the market yield on high quality corporate bonds in discounting their long-term employee benefits. On consolidation into these statements, the discount rate and associated disclosures have been adjusted back to apply government bond rates.

For the purposes of this whole of government disclosure, 'less material' schemes have been grouped under 'other'.

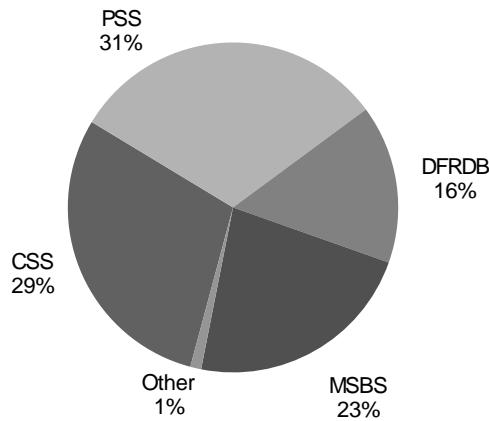
Composition

As at 30 June 2017, the composition of the Australian Government's net liability for the defined benefit schemes (as reported in Note 6F) was as follows:

Notes to the financial statements

Scheme	General Government		Australian Government	
	2017 \$m	2016 \$m	2017 \$m	2016 \$m
Commonwealth Superannuation Scheme (CSS)	82,539	86,124	82,539	86,124
Public Sector Superannuation Scheme (PSS)	87,317	100,613	87,317	100,613
Defence Force Retirement and Death Benefits Scheme (DFRDB)	43,503	50,359	43,503	50,359
Military Superannuation Benefits Scheme (MSBS)	63,450	74,369	63,450	74,369
Other schemes	2,568	2,714	2,910	3,360
Other superannuation liabilities	82	49	80	133
Total superannuation provision	279,459	314,228	279,799	314,958

The following chart illustrates the relative mix of the Australian Government superannuation liability by scheme:



The defined benefit plan asset of \$496 million reported in Note 5B (2016: \$34 million) relates to certain schemes sponsored by public corporations (included in 'other').

Regulatory framework

The following table details the enabling legislation for each of the individually disclosed defined benefits schemes and whether the scheme must comply with the requirements of the *Superannuation Industry (Supervision) Act 1993*.

Scheme	Enabling Act	Period open for new members	Requirement
CSS	<i>Superannuation Act 1976</i>	1 July 1976 to 30 June 1990	Compliance with the <i>Superannuation Industry (Supervision) Act 1993</i> .
PSS	<i>Superannuation Act 1990</i>	1 July 1990 to 30 June 2005	
MSBS	<i>Military Superannuation and Benefits Act 1991</i>	From 1 October 1991	
DFRDB	<i>Defence Force Retirement and Death Benefits Act 1973</i>	1 October 1972 to 30 September 1991	Exempt from <i>Superannuation Industry (Supervision) Act 1993</i> .

Funding arrangements

The funding arrangements for the various schemes are as follows:

Scheme	Funding
CSS	Partially funded. Contributions generally comprise basic member contributions and employer productivity (up to three per cent) contributions. Benefits are funded on an emerging cost basis.
PSS	
MSBS	
DFRDB	Unfunded. DFRDB's member's contribution rate is 5.5 per cent of the highest incremental salary for rank plus Service Allowance, which is paid into consolidated revenue. Benefits are funded on an emerging cost basis.

The remaining schemes are a combination of unfunded, partially funded and funded defined benefit schemes.

Entitlements

The nature of the benefits provided under the schemes are as follows:

Scheme	Benefits paid
CSS	<ul style="list-style-type: none"> Employer financed indexed pension defined by a set formula based on the member's age at retirement, years of contributory service and final superannuation salary. Indexation occurs twice yearly (January and July) in line with changes in the CPI. Member's basic contributions, employer productivity contributions and interest can be taken as a lump sum or an additional non-indexed lifetime pension. This benefit is determined by the value of contributions and investment returns. Members who resign before age 55 can claim a preserved resignation benefit on or after reaching that age. In this case, the indexed pension is calculated by applying age-based factors to the amount of two and a half times the member's accumulated basic member contributions and interest.
PSS	<ul style="list-style-type: none"> On retirement a lump sum benefit is payable based on the member's length of contributory membership, their rate of member contributions and final average salary (average of a member's superannuation salary on their last three birthdays). Members can convert 50 per cent or more of their lump sum to a lifetime indexed pension based on the member's age, indexed twice yearly (January and July) in line with changes in the CPI. Where a member resigns before age 55, generally the member's lump sum benefit at that time is crystallised with the funded component of the benefit accumulating with interest and the unfunded component accumulating with changes in the CPI, until the benefit becomes payable.

Notes to the financial statements

Scheme	Benefits paid
MSBS	<ul style="list-style-type: none"> • Benefits payable comprise a lump sum of accumulated member contributions and an employer financed defined benefit. • The defined benefit is calculated on the basis of the member's final average salary and length of contributory service. • Benefits arising from member's contributions, the employer three per cent productivity contribution and amounts notionally carried over from the DFRDB are determined by the value of contributions and investment returns. • May be taken as a lump sum or as a pension or as a combination of lump sum and pension.
DFRDB	<ul style="list-style-type: none"> • Length of service is the primary factor that determines benefit entitlement. • Members who retire from the Australian Defence Force (Defence) after 20 years of effective service (or after 15 years of service at retirement age for rank) are entitled to a pension based on a percentage of their annual pay on retirement. • Members who have less than 20 years of service but have not reached their compulsory retiring age for rank are entitled to a refund of their contributions, a Superannuation Guarantee amount and a productivity benefit; and if applicable, a gratuity based on completed years of service. • Members are entitled to a productivity benefit under the <i>Defence Force (Superannuation) (Productivity Benefit) Determination 1988</i> (issued under the <i>Defence Act 1903</i>). The amount of this productivity benefit varies according to the circumstances under which an individual member has left Defence. It is paid at the same time as DFRDB Scheme benefits are paid.

Generally, benefits may also be payable to any surviving eligible spouse and children on the death of a member or pensioner.

Governance

Commonwealth Superannuation Corporation (CSC), was established under the *Governance of Australian Government Superannuation Schemes Act 2011* and is the trustee for eleven schemes, including the CSS, PSS, DFRDB and MSBS. CSC is responsible for:

- administration of each Scheme;
- management and investment of Scheme assets;
- compliance with superannuation and taxation laws and other applicable laws; and
- compliance with relevant legislation including the *Governance of Australian Government Superannuation Schemes Act 2011*.

CSC is supported by an administrator, a custodian and other specialist providers. The governance arrangements for the 'other' defined benefit superannuation schemes are detailed in the annual reports of the respective employing entities.

Risks

The Australian Government is exposed to risks such as interest rate risk, investment risk, longevity risk and salary risk. The following pages identify and explain the amounts reported in these financial statements and detail the principal actuarial assumptions underpinning each of the major schemes, including an analysis of the sensitivity of changes in these assumptions to the amounts reported in the financial statements.

Assumptions

For the defined benefit obligation, assumptions have been made regarding rates of retirement, death (for active, preserved and pension members), mortality improvements, invalidity, resignation, retrenchment, retention and take up rates of pensions in the schemes. Assumptions have also been made for the ages of spouses and rates of member contributions.

Membership data for the CSS, PSS, DFRDB and MSBS as at 30 June 2016 was projected forward allowing for assumptions in accordance with the 2014 Long Term Cost Report. The data was then adjusted for the difference between actual benefit payments and those based on the assumed decrements. Members' account balances were increased to be consistent with the estimated level of earning rates prevailing at 30 June 2017.

For the fair value of plan assets, assumptions have been made as to the expected rate of return. For certain schemes, the fair value of scheme assets as at 30 June 2017 was estimated using the pre-30 June 2017 fair value of scheme assets and adjusted for subsequent cash flows.

The following tables explain the amounts reported in the financial statements.

Notes to the financial statements

Scheme	2017				
	CSS \$m	PSS \$m	DFRDB \$m	MSBS \$m	Other \$m
Reconciliation of the present value of the defined benefit obligation					
Opening present value	(89,196)	(117,146)	(50,359)	(81,689)	(12,903)
Current service cost	(177)	(3,672)	(173)	(4,203)	(404)
Productivity contributions	(14)	(173)	-	-	-
Interest cost	(2,344)	(3,147)	(1,340)	(2,256)	(268)
Contributions by scheme participants	(56)	(521)	-	(271)	(66)
<i>Actuarial gains/(losses) arising from:</i>					
Changes in demographic assumptions	-	-	-	-	(2)
Changes in financial assumptions	3,031	20,058	5,732	18,137	860
Liability experience	(568)	(2,185)	1,030	(2,218)	(22)
Other assumptions	-	-	-	-	(11)
Benefits paid	3,994	1,810	1,607	753	625
Taxes, premiums and expenses paid	2	26	-	-	-
Curtailment gain	-	-	-	-	2
Exchange rate gains/(losses)	-	-	-	-	6
Present value at 30 June	(85,328)	(104,950)	(43,503)	(71,747)	(12,183)
Reconciliation of the fair value of scheme assets					
Opening fair value	3,072	16,533	-	7,321	9,546
Changes in fair value of scheme assets:					
Plan asset acquired					
Interest income	72	438	-	202	193
Adjust for actual return on scheme assets	162	1,057	-	487	367
Actuarial gains/(losses)	-	-	-	-	3
Net appropriation from CRF	3,409	747	1,607	769	116
Employer contributions	14	173	-	271	170
Participant contributions	56	521	-	-	26
Net changes in fair value of scheme assets	-	-	-	-	(2)
Foreign currency exchange rate changes	-	-	-	-	(4)
Benefits paid	(3,994)	(1,810)	(1,607)	(753)	(642)
Taxes, premiums and expenses paid	(2)	(26)	-	-	(13)
Fair value at 30 June	2,789	17,633	-	8,297	9,760
Composition of scheme assets					
Australian equity	20.0%	20.0%	-	20.0%	12.2%
Market neutral hedge funds	-	-	-	-	-
International equity	23.0%	23.0%	-	23.0%	22.7%
Fixed income	-	-	-	-	1.2%
Property	10.0%	10.0%	-	13.0%	5.1%
Private equity	6.0%	6.0%	-	7.0%	9.9%
Infrastructure	3.0%	3.0%	-	-	-
Credit	-	-	-	-	-
Debt instruments	6.0%	6.0%	-	-	17.1%
International bonds	-	-	-	-	-
Diversified growth funds	-	-	-	-	0.3%
Other	14.0%	14.0%	-	19.0%	22.5%
Cash	18.0%	18.0%	-	18.0%	9.0%
Total	100%	100%	-	100%	100%
Principal actuarial assumptions at the reporting date					
Discount rate (active members)	3.0%	3.5%	3.4%	3.5%	3.1-4.5%
Discount rate (pensioners)	3.0%	3.5%	3.4%	3.5%	3.5%
Expected rate of return on plan assets	-	-	0.0%	3.5%	-
Expected salary increase rate	2.0%	2.0%	4.0%	4.0%	2.0-4.0%
Expected pension increase rate	2.5%	2.5%	2.5%	2.5%	2.5-4.0%

Notes to the financial statements

Scheme	2016				
	CSS \$m	PSS \$m	DFRDB \$m	MSBS \$m	Other \$m
Reconciliation of the present value of the defined benefit obligation					
Opening present value	(80,288)	(91,383)	(42,945)	(57,954)	(11,867)
Current service cost	(193)	(2,865)	(175)	(3,225)	(398)
Productivity contributions	(17)	(189)	-	-	-
Interest cost	(2,898)	(3,352)	(1,563)	(2,198)	(322)
Contributions by scheme participants	(62)	(534)	-	(329)	(54)
<i>Actuarial gains/(losses) arising from:</i>					
Changes in demographic assumptions	-	-	-	-	(11)
Changes in financial assumptions	(10,547)	(21,274)	(8,025)	(18,508)	(803)
Liability experience	899	829	773	(123)	38
Other assumptions	-	-	-	-	53
Benefits paid	3,907	1,586	1,576	648	453
Taxes, premiums and expenses paid	3	36	-	-	-
Curtailment gain	-	-	-	-	-
Exchange rate gains/(losses)	-	-	-	-	8
Present value at 30 June	(89,196)	(117,146)	(50,359)	(81,689)	(12,903)
Reconciliation of the fair value of scheme assets					
Opening fair value	3,490	16,583	-	6,799	9,488
Changes in fair value of scheme assets:					
Plan asset acquired					
Interest income	121	608	-	259	259
Adjust for actual return on scheme assets	(82)	(382)	-	(115)	(76)
Actuarial gains/(losses)	-	-	-	-	(1)
Net appropriation from CRF	3,374	623	1,576	697	90
Employer contributions	17	189	-	329	205
Participant contributions	62	534	-	-	54
Net changes in fair value of scheme assets	-	-	-	-	-
Foreign currency exchange rate changes	-	-	-	-	(8)
Benefits paid	(3,907)	(1,586)	(1,576)	(648)	(453)
Taxes, premiums and expenses paid	(3)	(36)	-	-	(12)
Fair value at 30 June	3,072	16,533	-	7,321	9,546
Composition of scheme assets					
Australian equity	24.0%	24.0%	-	18.0%	9.4%
Market neutral hedge funds	10.0%	10.0%	-	-	-
International equity	27.0%	27.0%	-	21.0%	18.5%
Fixed income	-	-	-	-	1.6%
Property	13.0%	13.0%	-	13.0%	8.1%
Private equity	-	-	-	8.0%	11.4%
Infrastructure	-	-	-	-	-
Credit	7.0%	7.0%	-	-	-
Debt instruments	-	-	-	-	18.4%
International bonds	5.0%	5.0%	-	-	0.0%
Diversified growth funds	-	-	-	-	0.3%
Other	5.0%	5.0%	-	19.0%	29.6%
Cash	9.0%	9.0%	-	21.0%	2.7%
Total	100%	100%	-	100%	100%
Principal actuarial assumptions at the reporting date					
Discount rate (active members)	2.7%	2.7%	2.7%	2.7%	2.7-3.6%
Discount rate (pensioners)	2.7%	2.7%	2.7%	2.7%	3.7%
Expected rate of return on plan assets	-	-	0.0%	2.7%	-
Expected salary increase rate	2.0%	2.0%	4.0%	4.0%	2-4.0%
Expected pension increase rate	2.5%	2.5%	2.5%	2.5%	2.4-4.0%

Notes to the financial statements

Sensitivity analysis for significant actuarial assumptions

The impact of a change in the defined benefit obligation reported as at 30 June 2017 under several scenarios is presented below. The balance has been recalculated by changing the assumptions as outlined below, whilst retaining all other assumptions.

	Change in assumption	Impact on defined benefit obligation	
		Increase	Decrease
		\$m	\$m
CSS			
Discount rate	0.5%	(5,270)	5,854
Salary growth rate	0.5%	140	(134)
Rate of CPI increase	0.5%	4,839	(4,420)
PSS			
Discount rate	0.5%	(9,791)	11,320
Salary growth rate	0.5%	2,363	(2,212)
Rate of CPI increase	0.5%	8,431	(6,675)
DFRDB and MSBS			
Discount rate	0.5%	(11,326)	13,429
Salary growth rate	0.5%	4,906	(4,541)
Rate of CPI increase	0.5%	7,390	(7,515)
Other			
Discount rate	0.5%	(376)	419
Salary growth rate	0.5%	248	(222)

Employer contributions

The following table shows the expected contributions for 2018 by scheme:

Scheme	2018 \$m
Commonwealth Superannuation Scheme	12
Public Sector Superannuation Scheme	168
Defence Force Retirement and Death Benefits Scheme	110
Military Superannuation Benefits Scheme	1,242
Other schemes	290

Maturity profile of defined benefit obligation

The weighted average duration of the defined benefit obligation in years for each of the schemes is outlined below.

Scheme	Weighted average duration of the defined benefit obligation in years
Commonwealth Superannuation Scheme 1976	13.2 years
Commonwealth Superannuation Scheme 1922	7.3 years
Public Sector Superannuation Scheme	20.3 years
Defence Force Retirement and Death Benefits Scheme	17.2 years
Defence Forces Retirement Benefits Scheme	10.0 years
Military Superannuation Benefits Scheme	28.7 years
Other	
AvSuper	10.0 years
Australia Post Superannuation Scheme	8.0 years
State Authorities Superannuation Scheme	12.9 years
State Superannuation Scheme	12.9 years
State Authorities Non contributory Superannuation Scheme	12.9 years
Australian Submarine Corporation Superannuation Fund	7.0 years
North American and London, Dublin and New Delhi pension schemes	14.0 years
RB Super	19.0 years
UK Pension Scheme	16.0 years
Parliamentary Contributory Superannuation Scheme	15.8 years
Judges' Pension Scheme	15.1 years
Governor General Pension Scheme	9.3 years
Federal Circuit Court Judges Death and Disability Scheme	2.0 years

Note 10A: Ministerial remuneration

Cabinet Ministers are key management personnel of the Australian Government. The disclosure includes all Cabinet Ministers who have served during the financial year.

Ministerial benefits that are not considered to be for personal benefit, such as electorate allowance for staff, transport, printing and communication, as well as costs incurred by portfolio departments on behalf of Ministers, are excluded from this disclosure. Costs associated with The Lodge and Kirribilli House are not included, as these are national assets and incur costs regardless of who uses them. Key management personnel remuneration is reported below:

Remuneration	2017 \$m
Short-term employee benefits(a)	8.9
Post-employment benefits(b)	1.5
Total key management personnel remuneration	10.4

(a) Short-term benefits comprise total salary (including the additional ministerial component), motor vehicle and other fringe benefit costs including related fringe benefits tax.

(b) Post-employment benefits comprise superannuation contributions, post-retirement travel and former Prime Minister entitlements.

The number of key management personnel included above is 23.

Note 10B: Related party disclosures

For the government, related parties include Cabinet Ministers, their close family members and bodies they control.

Cabinet Ministers transact with the government in respect of their remuneration (refer Note 10A), and fixed expense entitlements under the *Parliamentary Entitlements Act 1990*. Additionally, they or their close family members and bodies they control may transact with government on the same basis as other Australians, such as for the payment of taxes.

Besides these general transaction categories, there were no related party transactions between Cabinet Ministers, close family members and bodies they control and Government to be disclosed.

Transactions with superannuation funds represent contributions, and payments of benefits to members or their beneficiaries. These are made in accordance with the rules of the relevant fund. Contributions to the funds for Cabinet Ministers totalled \$1.5 million. Further information about defined benefit funds are included at Note 9C.

The government may also receive taxes and other government charges from entities it jointly controls or in which it is an associate.

Note 11: Events occurring after balance date

In accordance with *AASB 110 Events after the Reporting Period*, reporting entities are required to disclose any event between the balance sheet date and the date the financial statements are authorised for issue that may affect the financial statements. The standard classifies these events as either 'adjusting' or 'non-adjusting'.

No significant events have occurred after reporting date that require the CFS to be adjusted as at 30 June 2017, nor have there been significant non-adjusting events that have occurred after reporting date.

Note 12: Reconciliations and explanations

Prepared in accordance with AASB 1049, the whole of government and GGS financial statements provide users with information about the financial position, performance and cash flows of the Australian Government and its sectors; and information that facilitates assessments of the macro-economic impact of the Australian Government and its sectors.

Reporting at the whole of government and sector level is also distinguished by the following two characteristics:

- the application of two international reporting frameworks, being the accounting standards issued by the International Accounting Standards Board (through the AASB), and the system of GFS issued by the IMF and, in Australia, administered by the ABS; and
- the public release of budget information for the GGS.

To assist the differing users of these whole of government accounts, AASB 1049 requires the following reconciliations and explanations:

- **Reconciliation to ABS GFS measures** (refer Note 12A) which compares the key financial measures contained in this financial report to the corresponding measures under the ABS GFS Manual and highlights the remaining differences between the two reporting frameworks;
- **Reconciliation to original budget** (refer Note 12B), also required by AASB 1055 *Budgetary Reporting*, which compares the reported results to the original budget for 2016-17 as outlined in May 2016 with explanations for key movements; and
- **Glossary of key fiscal aggregates** (refer Note 12C) which explains the key technical terms reported in the CFS and which are not common to financial reports prepared by other entities.

Note 12A: Reconciliations to ABS GFS measures

Under AASB 1049, the financial statements are reconciled to the ABS GFS Manual effective at the beginning of the comparative reporting period (1 July 2015). The amounts reported may differ to the aggregates subsequently reported by the ABS in the 2016-17 GFS publication because of changes in methodology, differences in interpretation and/or updated information availability subsequent to the release of the financial statements.

Notes to the financial statements

The 2017 key fiscal aggregates on the face of the financial statements reconcile to the corresponding ABS GFS measures as follows:

	2017				
	GGs \$m	PNFC \$m	PFC \$m	Elimin- ations \$m	Australian Government \$m
Reconciliation of net operating balance					
Reported net operating balance	(32,083)	(4,010)	977	(1,493)	(36,609)
Convergence differences:					
Unwinding of concessional interest costs(a)	(52)	-	-	-	(52)
Concessional interest costs(a)	167	-	-	-	167
Seigniorage(b)	(107)	-	-	-	(107)
Deferred tax assets and liabilities(c)	-	123	-	(123)	-
Dividends to GGS from other sectors(d)	1,936	(168)	(3,285)	1,517	-
Renewable Energy Certificates (e)	(974)	-	-	-	(974)
Total convergence differences	970	(45)	(3,285)	1,394	(966)
GFS Net operating balance	(31,113)	(4,055)	(2,308)	(99)	(37,575)
Reconciliation of change in net worth					
Reported change in net worth	21,908	(3,348)	(715)	4,237	22,082
Convergence differences:					
Relating to net operating balance	970	(45)	(3,285)	1,394	(966)
Relating to other economic flows	9,747	(4,041)	3,962	1,873	11,541
Relating to transactions with owners	-	7,439	10	(7,449)	-
Total convergence differences	10,717	3,353	687	(4,182)	10,575
GFS Total change in net worth	32,625	5	(28)	55	32,657
Reconciliation of net lending/(borrowing)					
Reported net lending/(borrowing)	(34,960)	(9,786)	932	(1,493)	(45,307)
Convergence differences:					
Relating to net operating balance	970	(45)	(3,285)	1,394	(966)
Total convergence differences	970	(45)	(3,285)	1,394	(966)
GFS Net lending/(borrowing)	(33,990)	(9,831)	(2,353)	(99)	(46,273)
Reconciliation of net worth					
Reported net worth	(390,895)	23,808	22,756	(46,934)	(391,265)
Convergence differences:					
Provision for doubtful debts(f)	34,519	24	1	-	34,544
Concessional on loans and investments(a)	7,298	-	-	-	7,298
Investment in other sector entities(g)	(261)	-	-	261	-
Deferred tax assets(c)	-	(786)	(5)	791	-
Seigniorage(b)	(4,113)	-	-	-	(4,113)
Deferred tax liability(c)	-	557	-	(557)	-
Dividends(d)	1,936	-	(1,936)	-	-
Shares and other contributed capital(h)	-	(23,603)	(20,816)	46,439	2,020
Renewable Energy Certificates (e)	(4,378)	-	-	-	(4,378)
Total convergence differences	35,001	(23,808)	(22,756)	46,934	35,371
GFS Net worth	(355,894)	-	-	-	(355,894)

Table note explanations follow the comparative table.

Notes to the financial statements

The following table provides the comparative 2016 reconciliation:

	2016				
	GGs \$m	PNFC \$m	PFC \$m	Elimin- ations \$m	Australian Government \$m
Reconciliation of net operating balance					
Reported net operating balance	(34,658)	(2,710)	1,199	(3,339)	(39,508)
Convergence differences:					
Unwinding of concessional interest costs(a)	(106)	-	-	-	(106)
Concessional interest costs(a)	675	-	-	-	675
Seigniorage(b)	(145)	-	-	-	(145)
Deferred tax assets and liabilities(c)	-	(91)	(1)	92	-
Dividends to GGS from other sectors(d)	(1,338)	(123)	(1,955)	3,416	-
Renewable Energy Certificates (e)	(356)	-	-	-	(356)
Total convergence differences	(1,270)	(214)	(1,956)	3,508	68
GFS Net operating balance	(35,928)	(2,924)	(757)	169	(39,440)
Reconciliation of change in net worth					
Reported change in net worth	(114,680)	(2,804)	3,270	(481)	(114,695)
Convergence differences:					
Relating to net operating balance	(914)	(214)	(1,956)	3,508	424
Relating to other economic flows	1,262	(4,017)	1,979	716	(60)
Relating to transactions with owners	-	7,035	(3,293)	(3,742)	-
Total convergence differences	348	2,804	(3,270)	482	364
GFS Total change in net worth	(114,332)	-	-	1	(114,331)
Reconciliation of net lending/(borrowing)					
Reported net lending/(borrowing)	(37,508)	(7,399)	1,130	(3,534)	(47,311)
Convergence differences:					
Relating to net operating balance	(914)	(214)	(1,956)	3,508	424
Total convergence differences	(914)	(214)	(1,956)	3,508	424
GFS Net lending/(borrowing)	(38,422)	(7,613)	(826)	(26)	(46,887)
Reconciliation of net worth					
Reported net worth	(413,514)	19,890	24,782	(45,184)	(414,026)
Convergence differences:					
Provision for doubtful debts(f)	28,374	18	1	(1)	28,392
Concessional on loans and investments(a)	7,150	-	-	-	7,150
Investment in other sector entities(g)	(1,007)	-	-	1,007	-
Deferred tax assets(c)	-	(820)	(5)	825	-
Seigniorage(b)	(4,006)	-	-	-	(4,006)
Deferred tax liability(c)	-	468	-	(468)	-
Dividends(d)	(1,338)	-	1,338	-	-
Shares and other contributed capital(h)	-	(19,556)	(26,116)	43,821	(1,851)
Renewable Energy Certificates (e)	(4,889)	-	-	-	(4,889)
Total convergence differences	24,284	(19,890)	(24,782)	45,184	24,796
GFS Net worth	(389,230)	-	-	-	(389,230)

The convergence differences consist of:

- (a) *Concessional interest costs* - The financial statements discount concessional loans by a market rate of a similar instrument. The ABS GFS Manual uses nominal value.

Notes to the financial statements

- (b) *Seigniorage* - The financial statements treat the profit between the cost and sale of circulating coin (seigniorage) as revenue whereas the ABS GFS Manual treats circulating coin as a liability and the cost to produce the coins as an expense.
- (c) *Deferred tax assets and liabilities* - Deferred tax assets and liabilities are reported in the financial statements. The ABS GFS Manual does not recognise these items.
- (d) *Dividends to GGS from other sectors* - The financial statements treat dividends to the GGS as a distribution to owners whereas the ABS GFS Manual treats dividends to owners as an expense. The financial statements recognise the RBA dividends in the year profit was earned whereas the ABS GFS Manual recognises dividends when the Treasurer makes a determination.
- (e) *Renewable Energy Certificates (RECs)* - The financial statements recognise revenue from the surrender of RECs and expenses associated with the refund of shortfall charges. Under the ABS GFS Manual, the issuance and registration of RECs is considered to be government financial transactions resulting in the recognition of assets, liabilities, revenue and expenses.
- (f) *Provision for doubtful debts* - The financial statements treat provisions for doubtful debts as an offset to the asset in the balance sheet. The ABS GFS Manual does not consider the creation of a provision to be an economic event and therefore excludes it from the balance sheet.
- (g) *Investment in other sector entities* - The financial statements apply AASB 13 to the valuation of the GGS's investment in public corporations whereas the ABS GFS Manual values public corporations at their net assets unless the shares in a public corporation are publicly traded. A convergence difference arises where the application of AASB 13 results in a valuation other than net assets.
- (h) *Shares and other contributed capital* - The financial statements treat shares and other contributed capital in public corporations as part of net worth. The ABS GFS Manual deducts contributed capital in the calculation of net worth (with net worth calculated as assets less liabilities less shares and other contributed equity).

The ABS GFS Manual measures inventory at market value (rather than the lower of cost and net realisable value). It also does not recognise the provision for decommissioning/restoration costs. The above reconciliation has not been adjusted for these items on the basis of materiality and information availability. Reconciliation to GFS cash surplus/(deficit) is disclosed on the face of the cash flow statement.

Note 12B: Reconciliation to original budget

The following tables provide a comparison of the original 2016-17 Budget to the final actual results for the GGS. Explanations are provided for major variances, which are typically those driven by amounts greater than \$1 billion.

The Australian Government does not present budgets at the whole of government level, and therefore, only the GGS is presented in this note. The Budget is not audited.

General government sector operating statement 2016-17

	2017 Actual \$m	Original budget(a) \$m	Budget variance \$m	Revised budget(b) \$m
Revenue from transactions				
Taxation revenue	388,641	392,001	(3,360)	386,890
Sales of goods and services	8,230	8,531	(301)	8,176
Interest income	2,992	4,280	(1,288)	3,753
Dividend income	4,998	3,242	1,756	3,653
Other	10,863	8,807	2,056	9,618
Total revenue	415,724	416,862	(1,138)	412,091
Expenses from transactions				
<i>Gross operating expenses</i>				
Wages and salaries	19,059	20,071	(1,012)	19,926
Superannuation	9,831	4,618	5,213	9,702
Depreciation and amortisation	8,214	7,522	692	9,547
Supply of goods and services	93,038	90,285	2,753	91,354
Other operating expenses	5,906	5,430	476	5,664
<i>Total gross operating expenses</i>	<i>136,048</i>	<i>127,926</i>	<i>8,122</i>	<i>136,193</i>
Superannuation interest expense	8,445	9,959	(1,514)	8,446
Interest expenses	17,059	18,725	(1,666)	17,582
Current transfers				
Current grants	134,314	135,448	(1,134)	134,066
Subsidy expenses	11,002	13,425	(2,423)	12,663
Personal benefits	129,596	132,562	(2,966)	129,941
<i>Total current transfers</i>	<i>274,912</i>	<i>281,435</i>	<i>(6,523)</i>	<i>276,670</i>
Capital transfers				
Mutually agreed write-downs	1,203	1,845	(642)	1,389
Other capital grants	10,140	10,663	(523)	10,478
<i>Total capital transfers</i>	<i>11,343</i>	<i>12,508</i>	<i>(1,165)</i>	<i>11,867</i>
Total expenses	447,807	450,553	(2,746)	450,757
Net operating balance	(32,083)	(33,691)	1,608	(38,666)
Other economic flows included in operating result				
Net write-downs of assets	(13,387)	(8,077)	(5,310)	(9,013)
Net gain/(loss) from the sale of assets	5,515	5,300	215	5,184
Net foreign exchange gains/(losses)	1,439	8	1,431	157
Net swap interest gains/(losses)	98	-	98	25
Net fair value gains/(losses)	19,176	3,156	16,020	19,594
Other gains/(losses)	149	(247)	396	2,493
Operating result	(19,093)	(33,552)	14,458	(20,226)
Other economic flows - through equity				
Will not be reclassified to operating result				
Revaluation of non-financial assets	1,488	-	1,488	-
Actuarial revaluations of superannuation	44,904	(6)	44,910	(138)
Other economic revaluations	(67)	536	(603)	(5,354)
May be reclassified to operating result				
Revaluation of equity investments	(5,324)	(2,880)	(2,444)	(7,075)
Comprehensive result	21,908	(35,902)	57,810	(32,793)
Net operating balance	(32,083)	(33,691)	1,608	(38,666)
less Net acquisition of non-financial assets				
Purchases of non-financial assets	11,545	11,416	129	12,181
less Sales of non-financial assets	873	932	(59)	790
less Depreciation and amortisation	8,214	7,522	692	9,547
plus Change in inventories	392	449	(57)	205
plus Other movements in non-financial assets	27	26	1	(2)
Total net acquisition of non-financial assets	2,877	3,437	(560)	2,047
Fiscal balance (Net lending/borrowing)	(34,960)	(37,129)	2,169	(40,713)

(a) Original budget for 2016-17 in the 2016-17 Budget papers released in May 2016, presented on the same basis as the actual information to facilitate comparison.

(b) Revised budget for 2016-17 in the 2017-18 Budget papers released in May 2017, presented on the same basis as the actual information to facilitate comparison.

Notes to the financial statements

Revenue

Line item	Variance	Explanation
Taxation	(\$3.4b)	Total taxation revenue was \$3.4 billion lower than the original budget, primarily driven by income tax items: <ul style="list-style-type: none"> • lower individuals and other withholding tax of \$3.9 billion, mainly due to lower salary and wages growth; partially offset by • higher company tax of \$1.1 billion, reflecting stronger than expected outcomes of assessments.
Dividends	\$1.8b	Dividend revenue was \$1.8 billion higher than the original budget, primarily driven by higher revenue of \$1.1 billion from the RBA. In addition, the investment portfolio held by the Future Fund ¹ returned higher than expected dividend revenue of \$0.6 billion.
Other	\$2.1b	Other Revenue was \$2.1 billion higher than the original budget, with variances relating to a number of entities. The largest variance related to higher than expected PBS drug recoveries (\$1.6 billion), with the high demand for Hepatitis C drugs a significant contributor.

Expenses

Line item	Variance	Explanation
Superannuation	\$5.2b	<p>Superannuation expenses were \$5.2 billion higher than the original budget, primarily due to the different discount rates used to calculate the CFS and original budget superannuation liability amounts.</p> <p>At Budget, actuaries determined the long-term discount rate to be 6.0 per cent per annum. This rate reflects the average annual rate estimated to apply over the remainder of the term to maturity of the liability and the actuaries' view that short-term deviations are expected to be smoothed out in the longer term. This approach also reduces the volatility in reported liabilities in the Budget that would occur from year to year and has not changed from previous Budgets.</p> <p>For the CFS, the Australian Accounting Standards require the use of the long-term government bond rate as at 30 June 2017 that best matches each individual scheme's liability duration. The rates used were between 3.0 and 3.5 per cent per annum. These lower discount rates result in a higher superannuation liability, higher superannuation expenses and lower nominal superannuation interest expense in the CFS compared to the original (and revised) budget.</p>
Supply of goods and services	\$2.8b	Supply of goods and services expenses were \$2.8 billion higher than the original budget, primarily due to higher personal benefit expenses (\$1.9 billion) driven by the higher than expected demand for new Hepatitis C drugs since their introduction in late 2015-16. This also resulted in higher drug recoveries revenue compared to the original budget (refer to the Other revenue explanation).
Current grants	(\$1.1b)	Grants expenses were \$1.7 billion lower than the original budget, mainly due to delays in meeting milestones for Infrastructure

¹ The 2016-17 Budget was based on the assumption that the mandated return is achieved for each forward estimates year. CPI is estimated in these budget numbers. In that context, the budget construct, including related investment costs, was based on the estimated mandated return. Actual results will always deviate from these assumed returns. For 2016-17, the Future Fund generated a net of costs return of \$10.7 billion (8.7 per cent), a 31 per cent increase from the budgeted amount. For comparative purposes, the mandated return used for budget purposes for the equivalent period was 6.8 per cent. For further information on the Future Fund, refer to <http://www.futurefund.gov.au/About-us/annual-reports>.

Notes to the financial statements

Line item	Variance	Explanation
Capital grants	(\$0.5b)	Investment Program projects under the Road Transport National Partnership Agreement.
Subsidy expenses	(\$2.4b)	Subsidy expenses were \$2.4 billion lower than the original budget, mainly relating to Health subsidies (\$1.8 billion).
Personal benefits	(\$3.0b)	Personal benefit expenses were \$3.0 billion lower than the original budget, primarily as a result of demographic changes and policy initiatives for Social Services programs.

Other economic flows

Line item	Variance	Explanation
Net write-downs of assets	(\$5.3b)	The net write-downs of assets was \$5.3 billion greater than the original budget, mainly driven by: <ul style="list-style-type: none"> • higher high education loans write-downs due to changes in actuarial assumptions (\$4.3 billion); and • higher impairment for taxation receivables due to an increase in audit activity on large entities and entities entering insolvency (\$1.0 billion).
Net fair value gains/(losses)	\$16.0b	The net fair value gains was \$16.0 billion higher than the original budget, mainly due to the AGS yields being higher than anticipated at the time the budget estimate was prepared.
Actuarial revaluations of superannuation	\$44.9b	Actuarial revaluations of the superannuation liability were \$44.9 billion greater than the original budget, primarily due to the lower discount rate used to calculate the liability in the CFS (refer to the Superannuation expense explanation).
Revaluation of equity investments	(\$2.4b)	Revaluation of equity investments were \$2.4 billion greater than the original budget, mainly as a result of the movement in the net asset position of the RBA.

Notes to the financial statements

General government sector balance sheet as at 30 June 2017

	2017 Actual \$m	Original budget(a) \$m	Budget variance \$m	Revised budget(b) \$m
Assets				
Financial assets				
Cash and deposits	5,140	4,874	266	3,408
Advances paid	46,814	62,637	(15,823)	56,120
Other receivables and accrued revenue	46,699	44,322	2,377	45,313
Investments, loans and placements	193,252	173,479	19,773	181,854
Equity investments	89,990	93,759	(3,769)	89,885
<i>Total financial assets</i>	<i>381,895</i>	<i>379,071</i>	<i>2,824</i>	<i>376,580</i>
Non-financial assets				
Land	11,002	9,674	1,328	10,296
Buildings	25,692	26,391	(699)	25,795
Plant, equipment and infrastructure	73,586	62,239	11,347	72,022
Intangibles	7,452	7,414	38	7,912
Investment property	112	200	(88)	164
Inventories	8,548	8,184	364	8,482
Heritage and cultural assets	11,630	11,658	(28)	11,439
Other non-financial assets	3,856	4,803	(947)	4,810
<i>Total non-financial assets</i>	<i>141,878</i>	<i>130,562</i>	<i>11,316</i>	<i>140,920</i>
Total assets	523,773	509,633	14,140	517,500
Liabilities				
Interest bearing liabilities				
Deposits held	218	218	0	217
Government securities	547,254	549,537	(2,283)	546,915
Loans	10,179	9,958	221	15,674
Other borrowings	1,618	1,458	160	1,609
Other interest bearing liabilities	6,359	5,781	578	11
<i>Total interest bearing liabilities</i>	<i>565,628</i>	<i>566,952</i>	<i>(1,324)</i>	<i>564,426</i>
Provisions and payables				
Superannuation liability	279,459	175,661	103,798	174,989
Other employee liabilities	18,134	17,332	802	18,180
Suppliers payable	6,279	6,092	187	5,659
Personal benefits payable	3,086	4,121	(1,035)	3,792
Subsidies payable	549	507	42	437
Grants payable	3,922	3,699	223	3,757
Australian currency on issue	-	-	-	-
Tax liabilities	-	-	-	-
Other payables	3,582	3,075	507	3,297
Other provisions	34,029	33,123	906	34,657
<i>Total provisions and payables</i>	<i>349,040</i>	<i>243,610</i>	<i>105,430</i>	<i>244,768</i>
Total liabilities	914,668	810,561	104,107	809,194
Net worth	(390,895)	(300,929)	(89,966)	(291,695)

(a) Original budget for 2016-17 in the 2016-17 Budget papers released in May 2016, presented on the same basis as the actual information to facilitate comparison.

(b) Revised budget for 2016-17 in the 2017-18 Budget papers released in May 2017, presented on the same basis as the actual information to facilitate comparison.

Assets

Line item	Variance	Explanation
Advances paid	(\$15.8b)	<p>Advances paid were \$15.8 billion lower than the original budget, primarily due to:</p> <ul style="list-style-type: none"> • changes in actuarial assumptions and the Government bond rate for HELP loans (\$7.8 billion); and • the different measurement basis used for Australia's subscriptions to the IDA and ADF in the CFS and the original budget (\$5.8 billion). <p>In the 2016-17 Budget, Australia's subscriptions to the IDA and ADF were recognised at nominal value, while fair value is used for the CFS. At the 2017-18 Budget, these subscriptions were recognised at fair value.</p>
Other receivables and accrued revenue	\$2.4b	<p>Other receivables were \$2.4 billion higher than the original budget. This was driven by variances across a number of entities, with the largest variances relating to:</p> <ul style="list-style-type: none"> • higher than expected dividend revenue from the RBA (\$1.0 billion); and • higher taxation receivables, primarily as a result of stronger than expected outcomes of company tax assessments.
Investments, loans and placements	\$19.8b	<p>Investments, loans and placements were \$19.8 billion higher than original budget, primarily due to:</p> <ul style="list-style-type: none"> • a higher value of deposits and securities (\$10.3 billion) held by the AOFM, due to operational considerations and the impact of projection estimates for the highly volatile daily flows of revenue, expenditure and financing across the GGS; • a higher value of investments (\$7.9 billion) managed by the Future Fund²; and • delayed DCAF payments (\$3.4 billion) as a result of continuing National Partnership Agreement negotiations.
Equity investments	(\$3.8b)	<p>In addition, the Future Fund³ managed a lower value of equity investments (\$2.0 billion) than included in the original budget.</p>
Non-financial assets	\$11.3b	<p>Total non-financial assets, excluding Other non-financial assets, were \$12.3 billion higher than the original budget, primarily relating to SME (\$10.7 billion). The original budget amount for these assets was measured based on cost and updated for fair value measurement in the revised budget (consistent with the CFS measurement basis).</p>

² Refer to footnote 1 on page 140.

³ *ibid.*

Notes to the financial statements

Liabilities

Line item	Variance	Explanation
Government Securities (AGS)	(\$2.3b)	The fair value of AGS managed by the AOFM was \$2.3 billion lower than forecast in the original budget as a result of higher yields as at 30 June 2017. In face value terms, AGS on issue at 30 June 2017 was around \$1.8 billion higher than forecast in the original budget.
Superannuation liability	\$103.8b	The superannuation liability was \$103.8 billion higher than the original budget, primarily due to the lower discount rate used to calculate the liability in the CFS (refer to the Superannuation expense explanation).

General government sector cash flow statement 2016-17

	2017 Actual \$m	Original budget(a) \$m	Budget variance \$m	Revised budget(b) \$m
OPERATING ACTIVITIES				
Cash received				
Taxes received	379,271	383,487	(4,216)	377,919
Receipts from sales of goods and services	8,050	8,458	(408)	8,068
Interest receipts	2,925	3,262	(337)	3,003
Dividend receipts	6,874	5,833	1,041	5,820
Other receipts	10,466	7,879	2,587	8,695
Total cash received	407,586	408,919	(1,333)	403,505
Cash used				
Payments for employees	(27,148)	(28,259)	1,111	(27,918)
Payments for goods and services	(91,810)	(87,036)	(4,774)	(90,127)
Grants and subsidies paid	(155,981)	(161,853)	5,872	(157,615)
Interest paid	(15,290)	(15,903)	613	(15,251)
Personal benefits	(132,377)	(135,637)	3,260	(132,186)
Other payments	(5,632)	(5,141)	(491)	(5,464)
Total cash used	(428,238)	(433,829)	5,591	(428,560)
Net cash from/(used by) operating activities	(20,652)	(24,909)	4,257	(25,055)
INVESTING ACTIVITIES				
Investments in non-financial assets				
Sales of non-financial assets	2,282	2,365	(83)	2,219
Purchases of non-financial assets	(11,079)	(11,216)	137	(11,979)
Net cash from non-financial assets	(8,797)	(8,851)	54	(9,760)
Net cash flows from investments in financial assets for policy purposes	(13,501)	(19,678)	6,177	(16,246)
Net cash flows from investments in financial assets for liquidity purposes	(37,318)	(19,579)	(17,739)	(30,734)
Net cash from/(used by) investing activities	(59,616)	(48,108)	(11,508)	(56,740)
FINANCING ACTIVITIES				
Cash flows from financing activities				
Cash received				
Borrowings	84,908	77,572	7,336	84,770
Other financing	365	34	331	73
Total cash received	85,273	77,606	7,667	84,843
Cash used				
Distributions paid	(3)	-	(3)	-
Other financing	(3,500)	(3,227)	(273)	(3,279)
Total cash used	(3,503)	(3,227)	(276)	(3,279)
Net cash flows from financing activities	81,770	74,379	7,391	81,565
Net (decrease)/increase in cash held	1,502	1,362	140	(230)

General government sector cash flow statement 2016-17 (continued)

	2017 Actual \$m	Original budget(a) \$m	Budget variance \$m	Revised budget(b) \$m
Cash at beginning of year	3,638	(37)	3,675	3,638
Cash at end of year	5,140	1,325	3,815	3,408
Key fiscal aggregate				
Net cash flows from operating activities	(20,652)	(24,909)	4,257	(25,055)
Net cash flows from investments in non-financial assets	(8,797)	(8,851)	54	(9,760)
Cash surplus/(deficit)	(29,449)	(33,760)	4,311	(34,816)
Finance leases and similar arrangements	(58)	-	(58)	-
GFS cash surplus/(deficit)	(29,507)	(33,760)	4,253	(34,816)

(a) Original budget for 2016-17 in the 2016-17 Budget papers released in May 2016, presented on the same basis as the actual information to facilitate comparison.

(b) Revised budget for 2016-17 in the 2017-18 Budget papers released in May 2017, presented on the same basis as the actual information to facilitate comparison.

The variances for the cash flow statement reflect the movements in the operating statement and balance sheet.

Note 12C: Glossary of key fiscal aggregates

Balance sheet

The balance sheet shows stocks of assets, liabilities and net worth. In accordance with the Accrual Uniform Presentation Framework, net debt, net financial worth and net financial liabilities are also reported in the balance sheet.

Comprehensive result (total change in net worth before transactions with owners as owners)

The net result of all items of income and expense recognised for the period. It is the aggregate of operating result and other movements in equity, other than transactions with owners as owners.

Fiscal balance

The fiscal balance (or net lending/borrowing) is the net operating balance less net capital investment. Thus, the fiscal balance includes the impact of net expenditure (effectively purchases less sales) on non-financial assets rather than consumption (depreciation) of non-financial assets.

The fiscal balance measures the Australian Government's investment-saving balance. It measures in accrual terms the gap between government savings plus net capital transfers, and investment in non-financial assets. As such, it approximates the contribution of the GGS to the balance on the current account in the balance of payments.

Mutually agreed bad debts

Financial assets written off where there was prior knowledge and consent by the counterparties.

Net actuarial gains

Includes actuarial gains and losses on defined benefits superannuation plans.

Net financial liabilities

Total liabilities less financial assets, other than equity in PNFCs and PFCs. This measure is broader than net debt as it includes significant liabilities, other than borrowings (for example accrued employee liabilities such as superannuation and long service leave entitlements). For the PNFC and PFC sectors, it is equal to negative net financial worth.

Net financial worth

Net financial worth is equal to financial assets minus liabilities. It is a broader measure than net debt in that it incorporates provisions made (such as superannuation, but excluding depreciation and bad debts) as well as holdings of equity. Net financial worth includes all classes of financial assets and liabilities, only some of which are included in net debt.

Net lending/borrowing

This is the net operating balance minus the net acquisition/(disposal) of non-financial assets. It is also equal to transactions in the net acquisition/(disposal) of financial assets minus the net incurrence of liabilities. It indicates the extent to which financial resources are placed at the disposal of the rest of the economy or the utilisation of financial resources generated by the rest of the economy. It is an indicator of the financial impact on the rest of the economy.

Net other economic flows

The net change in the volume or value of assets and liabilities that does not result from transactions.

Net operating balance

This is calculated as income from transactions minus expenses from transactions.

Net result from transactions — net operating balance

The revenue from transactions minus expenses from transactions. It is a summary measure of the ongoing sustainability of operations. It excludes gains and losses resulting from changes in price levels and other changes in the volume of assets. It is the component of the change in net worth that is due to transactions and can be attributed directly to government policies.

Net worth

The net worth of the GGS, PNFC and PFC sectors are defined as assets less liabilities. This differs from the ABS GFS definition for the PNFC and PFC sectors where net worth is defined as assets less liabilities less shares and other contributed capital. Net worth is an economic measure of wealth, reflecting the Australian Government's contribution to the wealth of Australia.

Notes to the financial statements

Operating result

A measure of financial performance of the operations for the period. It is the net result of items of revenue, gains and expenses (including losses) recognised for the period, excluding those that are classified as 'other non-owner movements in equity'.

Operating statement

The operating statement presents details of transactions in revenues, expenses, the net acquisition of non-financial assets (net capital investment) and other economic flows for an accounting period.

Transactions

Interactions between two units by mutual agreement or an action within a unit that is analytically useful to treat as a transaction.

Unilaterally determined bad debts

Financial assets written off without an agreement with the debtor in cases such as bankruptcy of the debtor.

Note 13: Audit expenses

With the exception of a small number of entities, audit services within the reporting entity are provided by the Auditor-General. The cost of these services which include performance and financial statement audits, totalled \$74.7 million (2016: \$77.1 million). The audit of the CFS cost \$0.7 million (2016: \$1.2 million).

Note 14: List of Australian Government reporting entities

The following is a list of Australian Government reporting entities which have been consolidated for the purposes of the financial report. Unless otherwise noted, all such entities are wholly owned. The list is based on the Australian Government Administrative Arrangement Orders in place at 30 June 2017.

Agriculture and Water Resources Portfolio

General Government:

Australian Fisheries Management Authority	Department of Agriculture and Water Resources
Australian Grape and Wine Authority	Fisheries Research and Development Corporation
Australian Pesticides and Veterinary Medicines Authority	Grains Research and Development Corporation
Cotton Research and Development Corporation	Murray-Darling Basin Authority
	Rural Industries Research and Development Corporation

Attorney-General's Portfolio

General Government:

Administrative Appeals Tribunal	Australian Security Intelligence Organisation
Attorney-General's Department	Australian Transaction Reports and Analysis Centre (AUSTRAC)
Australian Commission for Law Enforcement Integrity	Federal Court of Australia
Australian Criminal Intelligence Commission	High Court of Australia
Australian Federal Police	National Archives of Australia
Australian Financial Security Authority	Office of the Australian Information Commissioner
Australian Human Rights Commission	Office of Parliamentary Counsel
Australian Institute of Criminology	Office of the Director of Public Prosecutions
Australian Law Reform Commission	

Communications and the Arts Portfolio

General Government:

Australia Council	Department of Communications and the Arts
Australian Broadcasting Corporation	National Film and Sound Archive of Australia
Australia Business Arts Foundation Ltd (Creative Partnerships Australia) (company limited by guarantee)	National Gallery of Australia
Australian Communications and Media Authority	National Library of Australia
Australian Film, Television and Radio School	National Museum of Australia
Australian National Maritime Museum	National Portrait Gallery of Australia
Bundanon Trust (company limited by guarantee)	Old Parliament House
	Screen Australia
	Special Broadcasting Service Corporation

Public Non-Financial Corporations:

Australian Postal Corporation (Australia Post)	NBN Co Ltd
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Defence Portfolio

General Government:

AAF Company (company limited by guarantee)	Department of Veterans' Affairs
Army and Air Force Canteen Service (Frontline Defence Services)	Royal Australian Air Force Veterans' Residences Trust Fund
Australian Military Forces Relief Trust Fund (Army Relief Trust Fund)	RAAF Welfare Recreational Company (company limited by guarantee)
Australian Strategic Policy Institute Ltd (company limited by guarantee)	Royal Australian Air Force Welfare Trust Fund
Australian War Memorial	

Notes to the financial statements

Defence Housing Australia
Department of Defence

Royal Australian Navy Central Canteens Board
Royal Australian Navy Relief Trust Fund

Education and Training Portfolio

General Government:

Australian Curriculum, Assessment and Reporting Authority
Australian Institute for Teaching and School Leadership Ltd (company limited by guarantee)
Australian Institute of Aboriginal and Torres Strait Islander Studies

Australian Research Council
Australian Skills Quality Authority (National Vocational Education and Training Regulator)
Department of Education and Training
Tertiary Education Quality and Standards Agency

Employment Portfolio

General Government:

Asbestos Safety and Eradication Agency
Comcare
Department of Employment
Fair Work Commission
Australian Building and Construction Commission

Fair Work Ombudsman and Registered Organisations Commission Entity
Safe Work Australia
Seafarers Safety, Rehabilitation and Compensation Authority (Seacare Authority)
Workplace Gender Equality Agency

Public Financial Corporation:

Coal Mining Industry (Long Service Leave Funding) Corporation

Environment and Energy Portfolio

General Government:

Australian Renewable Energy Agency
Bureau of Meteorology
Clean Energy Finance Corporation
Clean Energy Regulator
Climate Change Authority

Department of the Environment and Energy
Director of National Parks
Great Barrier Reef Marine Park Authority
Sydney Harbour Federation Trust

Finance Portfolio

General Government:

Australian Electoral Commission
Commonwealth Superannuation Corporation
Independent Parliamentary Expenses Authority

Department of Finance
Future Fund Management Agency

Public Non-Financial Corporations:

ASC Pty Ltd

Australian Naval Infrastructure Pty Ltd

Foreign Affairs and Trade Portfolio

General Government:

Australian Centre for International Agricultural Research
Australian Secret Intelligence Service
Australian Trade and Investment Commission

Department of Foreign Affairs and Trade
Export Finance and Insurance Corporation (National Interest Account)
Tourism Australia

Public Financial Corporation:

Export Finance and Insurance Corporation

Health Portfolio

General Government:

Australian Aged Care Quality Agency	Australian Sports Foundation Ltd (company limited by guarantee)
Australian Commission on Safety and Quality in Health Care	Cancer Australia
Australian Digital Health Agency	Department of Health
Australian Institute of Health and Welfare	Food Standards Australia New Zealand
Australian National Preventive Health Agency	Independent Hospital Pricing Authority
Organ and Tissue Authority	National Blood Authority
Australian Radiation Protection and Nuclear Safety Agency	National Health and Medical Research Council
Australian Sports Anti-Doping Authority	National Health Funding Body
Australian Sports Commission (Australian Institute of Sport)	National Mental Health Commission
	Professional Services Review Scheme

Immigration and Border Protection Portfolio

General Government:

Department of Immigration and Border Protection

Industry, Innovation and Science Portfolio

General Government:

Australian Institute of Marine Science	Department of Industry, Innovation and Science
Australian Nuclear Science and Technology Organisation	Geoscience Australia
Commonwealth Scientific and Industrial Research Organisation	IP Australia
Northern Australia Infrastructure Facility	National Offshore Petroleum Safety and Environmental Management Authority

Public Non-Financial Corporation:

ANSTO Nuclear Medicine Pty Ltd

Public Financial Corporations:

CSIRO General Partner Pty Ltd	CSIRO General Partner 2 Pty Ltd
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Infrastructure and Regional Development Portfolio

General Government:

Australian Maritime Safety Authority	Infrastructure Australia
Australian Transport Safety Bureau	National Capital Authority
Civil Aviation Safety Authority	National Transport Commission
Department of Infrastructure and Regional Development	Norfolk Island Health and Residential Aged Care Service

Public Non-Financial Corporations:

Airservices Australia	Moorebank Intermodal Company Limited
Australian Rail Track Corporation Limited	

Prime Minister and Cabinet Portfolio

General Government:

Aboriginal Hostels Ltd (company limited by guarantee)	Office of National Assessments
	Office of the Commonwealth Ombudsman

Notes to the financial statements

Australian National Audit Office
 Australian Public Service Commission
 Department of the Prime Minister and Cabinet
 Digital Transformation Agency
 Indigenous Business Australia
 Indigenous Land Corporation
 National Australia Day Council Ltd (company limited by guarantee)

Office of the Inspector-General of Intelligence and Security
 Office of the Official Secretary to the Governor-General
 Outback Stores Pty Ltd
 Torres Strait Regional Authority

Public Non-financial Corporation:

Voyages Indigenous Tourism Australia Pty Ltd

Social Services Portfolio

General Government:

Australian Institute of Family Studies
 Department of Human Services
 Department of Social Services

National Disability Insurance Scheme Launch Transition Agency (National Disability Insurance Agency)

Public Non-Financial Corporation:

Australian Hearing Services (Australian Hearing)

Treasury Portfolio

General Government:

Australian Bureau of Statistics
 Australian Competition and Consumer Commission
 Australian Office of Financial Management
 Australian Prudential Regulation Authority
 Australian Securities and Investments Commission
 Australian Taxation Office
 Commonwealth Grants Commission
 Financial Adviser Standards and Ethics Authority Ltd (company limited by guarantee)

Corporations and Markets Advisory Committee
 Department of the Treasury
 Inspector-General of Taxation
 National Competition Council
 Office of the Auditing and Assurance Standards Board
 Office of the Australian Accounting Standards Board
 Productivity Commission
 Royal Australian Mint

Public Financial Corporations:

Australian Reinsurance Pool Corporation

Reserve Bank of Australia

Parliamentary Departments

General Government:

Department of Parliamentary Services
 Department of the House of Representatives

Department of the Senate
 Parliamentary Budget Office

Entity changes during 2016-17

Entities no longer consolidated

Australian Crime Commission (1 July 2016)

CrimTrac Agency (1 July 2016)

Family Court and Federal Circuit Court (merged with the Federal Court of Australia on 1 July 2016, maintaining distinct statutory identities, separate legislation and independence under the *Courts Administration Legislation Amendment Act 2016*)

National Health Performance Authority (1 July 2016)

IIF Investments Pty Ltd (27 July 2016)
Administration of Norfolk Island (1 July 2016)

Entities newly controlled/established in 2016-17

Australian Criminal Intelligence Commission (1 July 2016)
Norfolk Island Health and Residential Aged Care Service (1 July 2016,
formally controlled through the Administration of Norfolk Island)
Independent Parliamentary Expenses Authority (3 April 2017)
Australian Naval Infrastructure Pty Ltd (26 March 2017)
Northern Australia Infrastructure Facility (1 July 2016)
CSIRO General Partner Pty Ltd (2 May 2016)
CSIRO General Partner 2 Pty Ltd (20 December 2016)
Financial Adviser Standards and Ethics Authority Ltd (11 April 2017)

Entities with name changes

Digital Transformation Agency (previously the Digital Transformation Office)
Australian Building and Construction Commission (previously Office of the Fair Work
Building Industry Inspectorate)
Fair Work Ombudsman and Registered Organisations Commission Entity (previously
Office of the Fair Work Ombudsman)
Department of the Environment and Energy (previously the Department of the
Environment)

The Australian Government Organisations Register (www.directory.gov.au) provides information on the function, composition, origins and other details of more than 1,200 Australian Government entities and bodies, including the reporting entities consolidated in the financial statements.