Part 5: Financial statements

Independent auditor's report

Financial statements

Auditor-General for Australia

Australian National Audit Office

INDEPENDENT AUDITOR'S REPORT

To the Minister for Finance

Opinion

In my opinion, the financial statements of the Department of Finance (Finance) for the year ended 30 June 2018:

(a) comply with Australian Accounting Standards – Reduced Disclosure Requirements and the *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015*; and

(b) present fairly the financial position of Finance as at 30 June 2018 and its financial performance and cash flows for the year then ended.

The financial statements of Finance, which I have audited, comprise the following statements as at 30 June 2018 and for the year then ended:

- Statement by the Secretary and Chief Financial Officer;
- Statement of Comprehensive Income;
- Statement of Financial Position;
- Statement of Changes in Equity;
- Cash Flow Statement;
- Administered Schedule of Comprehensive Income;
- Administered Schedule of Assets and Liabilities;
- Administered Reconciliation Schedule;
- Administered Cash Flow Statement; 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 of Finance in accordance with the relevant ethical requirements for financial statement audits conducted by me. These include the relevant independence requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) to the extent that they are not in conflict with the *Auditor–General Act 1997*. 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.

Key Audit Matters

Key audit matters are those matters that, in my professional judgement, were of most significance in my audit of the financial statements of the current period. These matters were addressed in the context of my audit of the financial statements as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters.

Key audit matter

Valuation of the liability for outstanding insurance claims

Refer to Note C1 'General insurance activities'

Finance provides insurance to Australian Government entities. The estimation of outstanding insurance claims liability involves significant judgement given the inherent uncertainty in estimating the expected future payments for claims incurred.

The estimation of the outstanding insurance claims liability is a key audit matter due to:

- the balance being significant relative to Finance's Statement of Financial Position ($382 million outstanding insurance claims liability as at 30 June 2018);
- the valuation involves complex assumptions about future events, both internal and external to the business, for which small changes in assumptions can result in large fluctuations in the estimate; and
- significant judgement being involved in estimating the period over which claims are expected to settle.

How the audit addressed the matter

To address the key audit matter I:

- evaluated Finance's actuarial methodology with the assistance of an independent actuary;
- assessed whether Finance's actuarial methodologies were consistent with those used in the industry and with prior periods; and
- compared key actuarial assumptions (claim ratios, expected frequency, severity of claims and discount rates applied), with the assistance of an independent actuary, including expectations based on current trends, changes to cases and industry knowledge.

Key audit matter

Valuation of superannuation provisions

Refer to Note C3 'Superannuation'

Finance administers defined benefit schemes that entitle Australian Government employees to retirement benefits based on past service. These schemes remain largely unfunded.

The measurement of the superannuation provisions is a key audit matter due to:

- the balance being significant relative to Finance's Administered Schedule of Assets and Liabilities ($183 billion as at 30 June 2018); and
- the measurement of the provision being complex, requiring significant professional judgement and estimation in the selection of long-term assumptions (regarding such matters as salary growth and discount rates), to which the valuation of the schemes is highly sensitive.

How the audit addressed the matter

To address the key audit matter I:

- assessed the effectiveness of control processes over the management of defined benefit schemes including management of members' data used in the valuation model;
- assessed, with the assistance of an independent actuary, the reasonableness of the methodology, assumptions and judgements used by Finance's actuary in relation to the estimation of the superannuation provision including comparison against accepted industry benchmarks; and
- tested disclosures of key judgements and estimates made, including the disclosure of the sensitivity analysis over significant judgements.

Key audit matter **Valuation of Properties**	**How the audit addressed the matter**
Refer to Note D3 'Non-financial assets' Finance is responsible for the management of the Australian Government's domestic non-defence property portfolio, including delivery of major capital works projects as directed by the Government. Finance has estimated the fair value of non-financial assets to be $376 million for land, $595 million for buildings and $783 million for investment properties as at 30 June 2018. The valuation of Finance's land, buildings and investment properties is a key audit matter due to the valuations being dependent on assumptions that require significant management judgement about capitalisation rates, fair market rents, discount rates and conditions of the use of the properties. Where observable market data is not available, the valuation is subject to a higher level of judgement.	To address the key audit matter I: • evaluated the appropriateness of Finance's methodologies and the reasonableness of its documented basis for key assumptions utilised in the valuation models; • evaluated the competence, capabilities and objectivity of management's valuers; and • tested a sample of property valuations and assessed the reasonableness of the significant data inputs underpinning the valuation. This included rental income and capital expenditure for investment properties and market value comparisons for land and building valuations.

Accountable Authority's Responsibility for the Financial Statements

As the Accountable Authority of Finance, the Secretary is responsible under the *Public Governance, Performance and Accountability Act 2013* for the preparation and fair presentation of annual financial statements that comply with Australian Accounting Standards – Reduced Disclosure Requirements and the rules made under that Act. The Secretary is also responsible for such internal control as the Secretary determines is necessary to enable the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Secretary is responsible for assessing Finance's ability to continue as a going concern, taking into account whether the entity's operations will cease as a result of an administrative restructure or for any other reason. The Secretary 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 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 entity's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Accountable Authority;
- conclude on the appropriateness of the Accountable Authority'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 entity's ability to continue as a going concern. 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. However, future events or conditions may cause the entity to cease to continue as a going concern; and
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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.

From the matters communicated with those charged with governance, I determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. I describe these matters in my auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in my report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Australian National Audit Office

Grant Hehir

Grant Hehir
Auditor–General

Canberra

27 August 2018

Department of Finance
Financial Statements for the period ended 30 June 2018

Statement by the Secretary and Chief Financial Officer

In our opinion, the attached financial statements for the year ended 30 June 2018 comply with subsection 42(2) of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act), and are based on properly maintained financial records as per subsection 41(2) of the PGPA Act.

In our opinion, at the date of this statement, there are reasonable grounds to believe that the Department of Finance will be able to pay its debts as and when they fall due.

Rosemary Huxtable PSM
Secretary
Department of Finance
27 August 2018

Steven Momcilovic
Chief Financial Officer
Department of Finance
27 August 2018

Glossary of terms

AAS	Australian Accounting Standards	Investment funds	Administered investment funds managed by the Future Fund Board of Guardians
AASB	Australian Accounting Standards Board	IPEA	Independent Parliamentary Expenses Authority
AMT	Adjusted Market Transactions	JPS	Judges' Pensions Scheme
ANI	Australian Naval Infrastructure Pty Ltd	LSL	Long Service Leave
ARR	Asset Revaluation Reserve	LTCR	Long Term Cost Report 2017
ASC	ASC Pty Ltd	MOP(S) Act	*Members of Parliament (Staff) Act 1984*
AUD	Australian dollar	MPS	Ministerial and Parliamentary Services
BAF	Building Australia Fund	MRFF	Medical Research Future Fund
BSSA	Business Services Special Account	MRFFICs	Medical Research Future Fund Investment Companies
CEB	Consumed Economic Benefits	NBFs	Nation Building Funds
CCEs	Corporate Commonwealth Entities	NET	Net Assets
CRF	Consolidated Revenue Fund	OCI	Other comprehensive income
CPCSA	Coordinated Procurement Contracting Special Account	OPA	Official Public Account
CPI	Consumer Price Index	PAES	Portfolio Additional Estimate Statements
CSC	Commonwealth Superannuation Corporation	PBR Act	*Parliamentary Business Resources Act 2017*
CSS	Commonwealth Superannuation Scheme	PBS	Portfolio Budget Statements
DAS	Department of Administrative Services	PGPA Act	*Public Governance, Performance and Accountability Act 2013*
DCAF	DisabilityCare Australia Fund	PM&C	Department of the Prime Minister and Cabinet
DTA	Digital Transformation Agency	PCSS	Parliamentary Contributory Superannuation Scheme
EIF	Education Investment Fund	PSS	Public Sector Superannuation Scheme
EUR	Euro	PSSap	Public Sector Superannuation accumulation plan
FCCJDDS	Federal Circuit Court Judges Death and Disability Scheme	PWS	Parliamentary Workflow System
FFMA	Future Fund Management Agency	RBA	Reserve Bank of Australia
FRR	*PGPA (Financial Reporting) Rule 2015*	RCN	Replacement Cost of New Assets
FVPL	Fair value through profit or loss	SDO	Service Delivery Office
GBP	British pound	The Board	Future Fund Board of Guardians
G-GPS	Governor-General Pension Scheme	USD	United States dollar
GST	Goods and Services Tax	VSA	Volume sourcing arrangements
IBNCS	Internet based network connection service	WACC	Weighted average cost of capital
IBNR	Claims incurred but not reported	WoAG	Whole of Australian Government
IBNER	Claims incurred but not enough reported		

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Department of Finance
STATEMENT OF COMPREHENSIVE INCOME
for the period ended 30 June 2018

Departmental Primary Statements

	Note ref		Actuals		Budget
			30 June 2018 $'000	30 June 2017 $'000	*30 June 2018 $'000*
NET COST OF SERVICES					
Expenses					
Employee benefits	E1.1		**168,477**	168,618	*163,910*
Supplier expenses					
ICT centralised procurement expense			**-**	135,945	*-*
Consultants and contractors		B1	**47,383**	47,445	*61,949*
Domestic property portfolio expenses			**31,138**	38,105	*28,735*
Communication and information technology			**49,072**	42,196	*35,646*
Property operating expenses			**3,236**	3,933	*4,284*
Insurance claims	C1.1	B2	**97,246**	163,993	*136,594*
Other goods and services			**20,393**	21,875	*19,976*
Operating lease rentals			**13,730**	14,066	*13,391*
Competitive neutrality	H2		**3,638**	3,768	*3,767*
Notional reinsurance expense	C1.1		**5,000**	5,000	*5,000*
Depreciation and amortisation	D3.1		**44,266**	29,424	*32,041*
Non-financial asset write downs			**2,129**	2,596	*16,729*
Impairment of financial assets	D1.3		**66**	4	*-*
Grants			**988**	-	*-*
Other expenses			**132**	166	*-*
Total expenses			**486,894**	677,134	*522,022*
Own-source income					
Own-source revenue					
Premium revenue	C1.1		**138,344**	140,290	*142,441*
Reinsurance and other recoveries revenue	C1.1		**299**	1,823	*-*
ICT centralised procurement revenue			**-**	135,978	*-*
Rental income	H2		**75,279**	67,678	*79,332*
Resources received free of charge	H2		**1,442**	1,398	*1,385*
Rendering of services			**69,069**	65,372	*62,448*
Interest revenue	D1.3		**3**	8	*-*
Other revenue			**8,752**	4,885	*6,888*
Total own-source revenue			**293,188**	417,432	*292,494*
Gains					
Gains		B3	**60,202**	36,760	*20,591*
Total gains			**60,202**	36,760	*20,591*
Total own-source income			**353,390**	454,192	*313,085*
Net cost of services			**(133,504)**	(222,942)	*(208,937)*
Revenue from Government			**262,577**	278,357	*256,930*
Surplus/(deficit) before income tax on continuing operations			**129,073**	55,415	*47,993*
Income tax equivalent	H2		**2,152**	-	*887*
Surplus/(deficit) after income tax on continuing operations			**126,921**	55,415	*47,106*
OTHER COMPREHENSIVE INCOME					
Items not subject to subsequent reclassification to net cost of services					
Changes in asset revaluation reserves relating to					
Land, building and leasehold improvements	D3.1	B3	**38,758**	21,879	*-*
Total comprehensive income/(loss)			**165,679**	77,294	*47,106*

The above statement should be read in conjunction with the accompanying notes

	Note ref		Actuals 30 June 2018 $'000	Actuals 30 June 2017 $'000	*Budget 30 June 2018 $'000*
Assets					
Financial assets					
Cash and cash equivalents					
Cash and cash equivalents	D1.1		**16,824**	10,780	*5,000*
Special account cash held in OPA	F3.1		**755,470**	739,018	*805,839*
Trade receivables	D1.1		**4,064**	74,299	*69,426*
Accrued revenue	D1.1		**5,889**	11,770	*20,344*
Appropriations receivable					
Special account capital receivable	F3.1		**62,589**	58,891	-
Other departmental undrawn	F1.2		**156,954**	152,956	*48,975*
Reinsurance and other recoveries	C1.3		**3,034**	5,964	*6,383*
Lease incentive assets			**3,994**	7,365	*8,619*
Investments in joint ventures	H1		**2,640**	3,611	*4,898*
Other financial assets			**131**	2,643	*2,801*
Total financial assets			**1,011,589**	1,067,297	*972,285*
Non-financial assets					
Land	D3.1	B3	**376,014**	387,641	*413,298*
Buildings	D3.1	B3	**595,221**	589,011	*682,471*
Leasehold improvements	D3.1		**25,312**	26,740	-
Investment properties	D3.1	B3	**783,282**	847,703	*648,958*
Plant and equipment	D3.1		**26,415**	30,867	*111,566*
Intangible assets	D3.1		**89,251**	94,387	*111,191*
Prepayments			**7,989**	9,443	*11,274*
Assets held for sale	D3.2		**28,154**	4,317	*12,137*
Total non-financial assets			**1,931,638**	1,990,109	*1,990,895*
Total Assets			**2,943,227**	3,057,406	*2,963,180*
Liabilities					
Trade creditors and accruals	D1.1		**36,241**	49,771	*66,124*
Unearned revenue			**16,968**	149,183	*85,945*
Return of equity - special accounts	H2	B3	**189,823**	57,145	*65,323*
Outstanding insurance claims	C1.4	B2	**381,912**	438,663	*352,587*
Employee provisions	E1.2		**62,479**	58,403	*67,733*
Finance leases	D1.1		**3,736**	6,475	*10,102*
Lease incentive liabilities			**35,236**	37,690	*40,144*
Other provisions	D4	B3	**20,648**	8,815	*21,274*
Other payables			**2,490**	5,591	*3,379*
Total liabilities			**749,533**	811,736	*712,611*
Net Assets			**2,193,694**	2,245,670	*2,250,569*
Equity					
Contributed equity/capital			**1,420,938**	1,638,593	*1,704,354*
Retained earnings			**534,857**	407,936	*368,953*
Asset revaluation reserves		B3	**237,899**	199,141	*177,262*
Total Equity			**2,193,694**	2,245,670	*2,250,569*

The above statement should be read in conjunction with the accompanying notes

Department of Finance
STATEMENT OF CHANGES IN EQUITY
for the period ended 30 June 2018

		Actuals							
		Retained earnings		Asset revaluation reserves		Contributed equity/capital		Total Equity	
		30 June 2018	30 June 2017	**30 June 2018**	30 June 2017	**30 June 2018**	30 June 2017	**30 June 2018**	30 June 2017
	Note ref	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000
Opening balance									
Balance carried forward		**407,936**	352,521	**199,141**	177,262	**1,638,593**	1,618,297	**2,245,670**	2,148,080
Adjusted opening balance		**407,936**	352,521	**199,141**	177,262	**1,638,593**	1,618,297	**2,245,670**	2,148,080
Comprehensive income									
Surplus/(deficit) for the period		**126,921**	55,415	**-**	-	**-**	-	**126,921**	55,415
Other comprehensive income		**-**	-	**38,758**	21,879	**-**	-	**38,758**	21,879
Total comprehensive income		**126,921**	55,415	**38,758**	21,879	**-**	-	**165,679**	77,294
Transactions with owners									
Distributions to owners									
Transfer of assets		-	-	**-**	-	**-**	(44,086)	**-**	(44,086)
Return of equity - special accounts	H2	**-**	-	**-**	-	**(183,077)**	(57,145)	**(183,077)**	(57,145)
Return of equity - other		**-**	-	**-**	-	**(931)**	(2,323)	**(931)**	(2,323)
Contributions by owners									
Departmental capital budget	F1.1	**-**	-	**-**	-	**6,480**	-	**6,480**	-
Equity injection - appropriations & supplementation	F1.1 & F1.2	**-**	-	**-**	-	**34,852**	109,808	**34,852**	109,808
Restructuring	C4	**-**	-	**-**	-	**(74,979)**	14,042	**(74,979)**	14,042
Total transactions with owners		**-**	-	**-**	-	**(217,655)**	20,296	**(217,655)**	20,296
Closing balance		**534,857**	407,936	**237,899**	199,141	**1,420,938**	1,638,593	**2,193,694**	2,245,670
Budget 30 June 2018									
Opening balance		*379,286*	*226,357*	*177,262*	*152,129*	*1,695,121*	*1,577,718*	***2,251,669***	*1,956,204*
Total comprehensive income		*47,106*	*18,105*	-	-	-	-	***47,106***	*18,105*
Total transactions with owners		*(57,439)*	*(77,196)*	-	-	*9,233*	*75,593*	***(48,206)***	*(1,603)*
Closing balance		*368,953*	*167,266*	*177,262*	*152,129*	*1,704,354*	*1,653,311*	***2,250,569***	*1,972,706*

The above statement should be read in conjunction with the accompanying notes

	Note ref	Actuals 30 June 2018 $'000	30 June 2017 $'000	*Budget 30 June 2018 $'000*
OPERATING ACTIVITIES				
Cash received				
Rendering of services		**73,730**	273,407	*142,052*
Revenue from Government		**258,913**	306,124	*248,908*
Insurance premiums		**138,344**	140,301	*142,441*
Reinsurance and other recoveries		**3,229**	2,266	*-*
Interest and dividends		**3**	8	*-*
Rent received		**75,279**	67,678	*-*
Net GST received		**2,386**	415	*-*
Other		**9,746**	8,515	*6,888*
Total cash received		**561,630**	798,714	*540,289*
Cash used				
Employees		**165,193**	175,502	*161,478*
Suppliers		**184,569**	337,210	*197,495*
Insurance claims		**153,583**	76,726	*136,594*
Net special account receipts transferred to OPA		**-**	-	*97,439*
Total cash used		**503,345**	589,438	*593,006*
Net cash received/(used) for operating activities		**58,285**	209,276	*(52,717)*
INVESTING ACTIVITIES				
Cash received				
Proceeds from sale of land and buildings		**4,853**	18,725	*-*
Proceeds from sale of financial investments		**1,035**	1,175	*-*
Proceeds from sale of investment properties	B3	**127,553**	2,905	*57,028*
Total cash received		**133,441**	22,805	*57,028*
Cash used				
Purchase of land and buildings		**19,678**	88,949	*25,953*
Purchase of leasehold improvements		**313**	620	*4,900*
Purchase of investment properties		**17,414**	30,629	*1,364*
Purchase of plant and equipment		**3,866**	8,126	*41,377*
Purchase of intangibles		**17,866**	18,830	*10,011*
Other		**-**	40,000	*-*
Total cash used		**59,137**	187,154	*83,605*
Net cash received/(used) for investing activities		**74,304**	(164,349)	*(26,577)*
FINANCING ACTIVITIES				
Cash received				
Contributed equity		**37,300**	125,284	*79,294*
Total cash received		**37,300**	125,284	*79,294*
Cash used				
Return of contributed equity	H2	**51,330**	67,646	*-*
Restructuring		**96,063**	-	*-*
Total cash used		**147,393**	67,646	*-*
Net cash received/(used) for financing activities		**(110,093)**	57,638	*79,294*
Net increase/(decrease) in cash held		**22,496**	102,565	*-*
Cash and cash equivalents at the beginning of the reporting period		**749,798**	647,233	*5,000*
Cash and cash equivalents at the end of the reporting period	D1.1	**772,294**	749,798	*5,000*

The above statement should be read in conjunction with the accompanying notes

Department of Finance
ADMINISTERED SCHEDULE OF COMPREHENSIVE INCOME
for the period ended 30 June 2018

Administered Primary Schedules

	Note ref		Actuals 30 June 2018 $'000	30 June 2017 $'000	*Budget 30 June 2018 $'000*
NET COST OF SERVICES					
Expenses					
Employee benefits	E1.1		**298,736**	195,099	*258,906*
Superannuation expense	C3.1	B4	**8,459,462**	8,961,212	*7,990,255*
Supplier expenses					
Office expenses			**43,742**	38,106	*36,232*
Travel expenses			**717**	43,534	*1,153*
Operating lease rentals			**38,526**	39,842	*43,984*
Communication and information technology			**22,396**	24,681	*27,409*
Property operating expenses			**12,585**	11,565	*13,503*
Outsource provider expenses			**2,854**	5,467	*2,631*
Superannuation administration costs			**9,308**	9,924	*9,662*
COMCAR operating expenses			**3,491**	3,171	*3,210*
Other goods and services			**17,040**	16,598	*18,788*
Investment funds - other expenses	C2.1		**26,736**	22,294	*38,249*
Distribution to portfolio special accounts	C2.1	B5	**129,897**	83,469	*661,547*
Depreciation and amortisation	D3.1		**17,196**	11,965	*20,691*
Investment funds - foreign exchange losses	C2.1	B5	**225,700**	6,925	*-*
Non-financial asset write downs	D3.1		**218**	2,215	*-*
Impairment of financial assets	D1.3		**1**	13	*2*
Grants			**2,935**	2,526	*2,941*
Other expenses			**768**	1,578	*3,995*
Total expenses administered on behalf of Government			**9,312,308**	9,480,184	*9,133,158*
Income					
Non- taxation revenue					
Interest	D1.3		**29,841**	30,193	*9,110*
Investment funds - interest on term deposits	C2.1	B5	**140,885**	91,566	*426,212*
Dividends	D1.3		**16,100**	19,700	*9,800*
Investment funds - dividends	C2.1	B5	**36,716**	13,228	*-*
Rendering of services			**3,815**	3,339	*3,839*
Superannuation contributions	C3.1		**1,214,038**	1,274,957	*1,203,510*
Resources received free of charge	H2		**4,455**	4,368	*4,335*
Other revenue			**9,604**	18,230	*14,831*
Total revenue			**1,455,454**	1,455,581	*1,671,637*
Gains					
Gains from sale of financial assets	D1.3		**-**	1	*-*
Gains from sale of non-financial assets			**3**	2	*-*
Investment funds - gains on financial investments	C2.1	B5	**763,532**	439,306	*46,543*
Other gains			**424**	196	*-*
Total gains			**763,959**	439,505	*46,543*
Total income administered on behalf of Government			**2,219,413**	1,895,086	*1,718,180*
Net cost of services			**(7,092,895)**	(7,585,098)	*(7,414,978)*
Surplus/(deficit)			**(7,092,895)**	(7,585,098)	*(7,414,978)*

The above schedule should be read in conjunction with the accompanying notes

ADMINISTERED SCHEDULE OF COMPREHENSIVE INCOME
for the period ended 30 June 2018

		Actuals		*Budget*
		30 June	30 June	*30 June*
		2018	2017	*2018*
	Note ref	**$'000**	$'000	*$'000*
OTHER COMPREHENSIVE INCOME				
Items not subject to subsequent reclassification to net cost of services				
Movement in carrying amount of superannuation	C3.1	**(6,787,862)**	21,728,419	-
Changes in asset revaluation reserves relating to				
Infrastructure, plant and equipment	D3.1	**2,797**	1,461	-
Leasehold improvements	D3.1	**-**	8,672	-
Items subject to subsequent reclassification to net cost of services				
Gains/(losses) on				
Available for sale financial assets	D1.3	**51,951**	77,963	-
Total other comprehensive income/(loss)		**(6,733,114)**	21,816,515	-
Total comprehensive income/(loss)		**(13,826,009)**	14,231,417	*(7,414,978)*

The above schedule should be read in conjunction with the accompanying notes

Department of Finance
ADMINISTERED SCHEDULE OF ASSETS AND LIABILITIES
as at 30 June 2018

Administered Primary Schedules

		Actuals		Budget
		30 June 2018	30 June 2017	*30 June 2018*
	Note ref	**$'000**	$'000	*$'000*
Assets				
Financial assets				
Cash and cash equivalents	D1.1	**1,731,032**	937,956	*-*
Trade receivables	D1.1	**1,826**	721	*1,283*
Investment funds - loans and receivables	C2.2 B5	**7,979,610**	6,501,484	*-*
State and Territory Government loans	D1.1	**133,121**	139,752	*133,119*
Accrued revenue	D1.1	**9,583**	2,213	*1,554*
Government securities	D1.1	**-**	1,472	*551*
Commonwealth corporate entities	D1.1	**904,868**	573,417	*962,759*
Investment funds - financial assets at FVPL	C2.2 B5	**21,844,193**	16,190,822	*13,550,092*
Lease incentive assets		**27**	58	*-*
Other financial assets		**17,259**	14,119	*-*
Total financial assets		**32,621,519**	24,362,014	*14,649,358*
Non-financial assets				
Leasehold improvements	D3.1	**26,025**	24,889	*12,138*
Infrastructure	D3.1	**69,716**	69,997	*66,625*
Plant and equipment	D3.1	**6,655**	4,157	*-*
Intangible assets	D3.1	**668**	1,071	*1,518*
Prepayments		**3,297**	3,491	*3,556*
Total non-financial assets		**106,361**	103,605	*83,837*
Total Assets		**32,727,880**	24,465,619	*14,733,195*
Liabilities				
Trade creditors and accruals	D1.1	**12,141**	12,418	*11,654*
Investment funds - financial liabilities	C2.2 B5	**91,032**	99,915	*-*
Investment funds - derivative liabilities	C2.2 B5	**157,327**	13,405	*-*
Overnight cash balance payable	H2	**1,326,409**	1,422,029	*-*
Employee provisions	E1.2	**235,865**	237,009	*312,501*
Superannuation provisions	C3.1 B4	**183,067,033**	172,352,268	*113,965,453*
Other provisions	D4	**17,350**	18,314	*10,963*
Other payables		**48,991**	66,895	*10,487*
Total liabilities		**184,956,148**	174,222,253	*114,311,058*
Net Assets		**(152,228,268)**	(149,756,634)	*(99,577,863)*

The above schedule should be read in conjunction with the accompanying notes

		Actuals	
		30 June	30 June
		2018	2017
	Note ref	**$'000**	$'000
Opening assets less liabilities		**(149,756,634)**	(172,858,314)
Net (cost of)/contribution by services		**(7,092,895)**	(7,585,098)
Other comprehensive income/(loss)		**(6,733,114)**	21,816,515
Reserves transferred to Schedule of Comprehensive Income		**-**	-
Transfers (to)/from the Australian Government			
Appropriation transfers from OPA			
Annual appropriations		**269,966**	298,706
Administered assets and liabilities appropriations		**301,354**	1,779
Special appropriations	F2.1	**6,757,242**	6,560,096
Transfers to OPA		**(3,289,054)**	(3,475,849)
Transfers from OPA		**356**	109
Equity (distribution)/injection		**2,769**	41,266
Contributions from government to the investment funds	F3.2	**6,437,661**	5,441,672
OPA WoAG transfers			
Transfers from other entities	H2	**688,314,580**	633,491,286
Transfers to other entities	H2	**(687,440,499)**	(633,488,802)
Closing assets less liabilities		**(152,228,268)**	(149,756,634)

The above schedule should be read in conjunction with the accompanying notes

Department of Finance
ADMINISTERED CASH FLOW STATEMENT
for the period ended 30 June 2018

Administered Primary Schedules

		Actuals		Budget
		30 June	30 June	*30 June*
		2018	2017	*2018*
	Note ref	**$'000**	$'000	*$'000*
OPERATING ACTIVITIES				
Cash received				
Rendering of services		**2,710**	3,995	*3,839*
Superannuation contributions - employers		**1,204,374**	1,270,538	*1,190,812*
Superannuation funds contributions - members		**2,028,753**	2,132,494	*1,884,657*
Net gains from sale of financial instruments		**327,848**	257,301	*-*
Interest and dividends		**218,112**	148,429	*439,809*
Realised exchange gains		**31,194**	208,954	*-*
Net GST received		**-**	802	*-*
Other		**10,032**	18,396	*8,331*
Total cash received		**3,823,023**	4,040,909	*3,527,448*
Cash used				
Employees		**297,132**	268,977	*258,844*
Suppliers		**179,499**	210,806	*194,408*
Investment Funds distribution		**129,897**	83,469	*661,547*
Superannuation payments		**6,561,312**	6,380,557	*6,571,480*
Realised exchange losses		**6,614**	-	*-*
Grants		**2,935**	1,800	*2,941*
Net GST paid		**419**	-	*-*
Other		**730**	612	*4,448*
Total cash used		**7,178,538**	6,946,221	*7,693,668*
Net cash received/(used) for operating activities		**(3,355,515)**	(2,905,312)	*(4,166,220)*
INVESTING ACTIVITIES				
Cash received				
Proceeds from sale of financial investments		**32,682,672**	19,960,339	*12,326,829*
Proceeds from sale of plant and equipment		**-**	17	*-*
Repayments of advances and loans		**11,945**	11,600	*12,865*
Matured government securities		**1,472**	-	*-*
Total cash received		**32,696,089**	19,971,956	*12,339,694*
Cash used				
Purchase of financial investments		**39,495,417**	25,866,742	*7,176,397*
Equity injections - CCEs		**290,500**	-	*-*
Purchase of leasehold improvements		**12,929**	5,756	*7,973*
Purchase of infrastructure		**1,224**	1,352	*-*
Purchase of plant and equipment		**3,257**	1,405	*3,398*
Purchase of intangibles		**157**	57	*-*
Total cash used		**39,803,484**	25,875,312	*7,187,768*
Net cash received/(used) for investing activities		**(7,107,395)**	(5,903,356)	*5,151,926*

The above statement should be read in conjunction with the accompanying notes

Department of Finance
ADMINISTERED CASH FLOW STATEMENT
for the period ended 30 June 2018

	Note ref	Actuals 30 June 2018 $'000	30 June 2017 $'000	Budget 30 June 2018 $'000
FINANCING ACTIVITIES				
Cash received				
Contributed equity		**8,767,768**	7,575,945	*6,244,700*
Total cash received		**8,767,768**	7,575,945	*6,244,700*
Cash used				
Equity distribution		**-**	3,189	*11,627,035*
Total cash used		**-**	3,189	*11,627,035*
Net cash received/(used) for financing activities		**8,767,768**	7,572,756	*(5,382,335)*
Net increase/(decrease) in cash held		**(1,695,142)**	(1,235,912)	*(4,396,629)*
Cash and cash equivalents at the beginning of the reporting period		**937,956**	1,059,534	-
OPA (WoAG)				
Transfers to other entities		**(687,536,119)**	(633,627,520)	-
Transfers from other entities		**688,314,580**	633,491,395	-
Total cash from/(to) OPA		**778,461**	(136,125)	-
Finance administered transfers				
Cash to OPA - appropriations		**(3,289,054)**	(3,475,849)	*(720,375)*
Cash from OPA - appropriations		**4,998,811**	4,726,308	*5,117,004*
Total cash from/(to) OPA		**1,709,757**	1,250,459	*4,396,629*
Cash and cash equivalents at the end of the reporting period	D1.1	**1,731,032**	937,956	-

The above statement should be read in conjunction with the accompanying notes

A. About This Report

The Department of Finance (Finance) is an Australian Government controlled not-for-profit entity, its purposes for 2017-18 being: to assist the Australian Government to achieve its fiscal and policy objectives by advising on expenditure, managing sustainable public sector resourcing, driving public sector transformation and delivering efficient, cost-effective services to, and for, the government.

Finance is structured to fulfil its purpose through three outcomes, as set out in the 2017-18 Portfolio Budget Statements (PBS).

Outcome/Program	**How outcomes are achieved**	**Net contribution / (cost) of services** [1]	
		30 June 2018	30 June 2017
Outcome 1: Support sustainable Australian Government finances through providing high quality policy advice and operational support to the government and Commonwealth entities to maintain effective and efficient use of public resources.			
1.1 Budget and Financial Management	• Advising the Finance Minister and Expenditure Review Committee (ERC) on fiscal and economic policies and related matters; • Supporting the Finance Minister in meeting his financial reporting responsibilities; and • Supporting the delivery of the Budget.	Departmental ($103.1m)	Departmental ($84.5m)
Outcome 2: Support an efficient and high-performing public sector through providing leadership to Commonwealth entities in ongoing improvements to public sector governance, including through systems, frameworks, policy, advice, and service delivery.			
2.1 Public Sector Governance	• Developing and maintaining the public sector resource management framework; • Improving the standard of governance, performance and accountability; and • Undertaking shareholder oversight of Government Business Enterprises (GBEs) and other commercial entities.	Administered $37.7m Departmental ($35.1m)	Administered $50.3m Departmental ($33.1m)
2.2 Transforming Government	• Providing leadership in the development and delivery of reforms and initiatives that support the modernisation of government; and increase public sector productivity.	Departmental ($45.1m)	Departmental ($46.7m)
2.3 Property and Construction	• Providing policy advice, guidance and support on managing Commonwealth property, land and public works across the government; and • Managing specified major capital works projects and the government's non-Defence property portfolio within Australia.	Departmental $59.4m	Departmental $20.0m
2.4 Insurance and Risk Management	• Providing general insurance services and promoting risk management across the government through the Comcover Special Account.	Departmental $29.2m	Departmental ($35.0m)
2.5 Technology and Procurement Services	• Providing timely and relevant procurement policy advice; • Providing advice to the government on advertising; • Establishing and maintaining Whole of Australian Government (WoAG) procurement arrangements for common goods and services; and • Establishing, developing and maintaining whole of government and cross-entity information and communication technology (ICT) infrastructure, platforms, systems and services.	Departmental $6.0m	Departmental $2.9m
2.6 Service Delivery Office	• Providing certain corporate services to client Australian Government entities.	Departmental ($14.0m)	Departmental ($4.7m)

2.7 Public Sector Superannuation	• Advising the government on managing the Future Fund, the stability of the government's unfunded superannuation liabilities and its associated administered expense items and superannuation arrangements for government employees. This includes the administration and management of superannuation arrangements for parliamentarians, as well as current and former Governors-General, Federal Judges and Federal Circuit Court Judges.	Administered ($7.3b) Departmental ($4.6m)	Administered ($7.7b) Departmental ($6.5m)
2.8 Australian Government Investment Funds	• Providing advice on investment mandates and governance arrangements for the government's Investment Funds, to maximise the value of the funds to the Government. This includes advice on credit of amounts to the Funds and payments from the Funds.	Administered $558.8m	Administered $431.4m
Outcome 3: Support for Parliamentarians and others as required by the Australian Government through the delivery of, and advice on, work expenses and allowances, entitlements and targeted programs.			
3.1 Ministerial and Parliamentary Services	• Providing advice on, access to and payment of parliamentary and post-parliamentary work expenses, allowances and entitlements and targeted programs.	Administered ($441.1m) Departmental ($26.3m)	Administered ($376.4m) Departmental ($35.3m)

[1] Net cost of services includes depreciation and amortisation expense, the write-down and impairment of assets (or the reversal) and gains/losses from the sale of assets. It excludes revenue from government, income tax expense and other items recognised in other comprehensive income.

Finance's activities are classified as either Departmental or Administered. Departmental activities involve the use of assets, liabilities, incomes and expenses controlled or incurred by Finance in its own right.

Administered items are controlled by the government and managed or overseen by Finance on behalf of the government. These items are distinguished from Departmental items using shading.

In some areas of this financial report, Departmental and Administered items are included in the same section, this is for presentation purposes only and these balances should not be compared.

The continued existence of Finance in its present form and with its present programs is dependent on government policy and on continued funding by Parliament.

Basis of preparation

Finance's financial statements are required by section 42 of the PGPA Act. The financial statements are general purpose financial statements that have been prepared in accordance with the *PGPA (Financial Reporting) Rule 2015 (FRR)* and Australian Accounting Standards (AAS) and Interpretations issued by the Australian Accounting Standards Board (AASB) that apply for the reporting period. Finance has applied the Reduced Disclosure Requirements issued by the AASB as a minimum and has included additional disclosures for financial instruments, fair value and superannuation as required under subsection 18(3) of the FRR.

Basis of accounting

The financial statements have been prepared on an accrual basis and are in accordance with the historical cost convention, except for certain assets and liabilities at fair value.

All assets have been assessed for impairment at the end of the reporting period, and no impairment indicators exist unless otherwise stated.

How to read this report

The following pages set out the notes to the financial statements, which include further information required to understand the financial statements. This has been assessed against materiality and relevance to the operations, financial position and performance of Finance. All amounts are presented in Australian dollars (AUD) and are in whole dollars unless otherwise specified.

Key judgements and estimates

In applying Finance's accounting policies, management has made a number of judgements and applied estimates and assumptions to future events. Judgements and estimates that are material to the financial statements are found in the following notes:

C1: General insurance activities
C2: Investment funds
C3: Superannuation
D1: Financial instruments
D3: Non-financial assets
E1: Employee benefits

With the exception of judgements and estimates applied in the above notes, no allowance is made for the effect of changing prices on the results or the financial position.

New Australian Accounting Standards (AAS)

Future AAS requirements
The Australian Accounting Standards Board (AASB) has issued a number of new standards, amendments to standards and interpretations that are effective for future reporting periods. These new standards are not expected to have an impact on Finance’s financial statements except for:

- *AASB 9 Financial Instruments* (effective 1 July 2018) applies a single approach for the classification and measurement of financial assets based on cash flow characteristics and the business model used for the management of financial instruments. It also introduces an expected credit loss model for the impairment of financial assets which replaces the incurred loss model used in AASB 139. Finance does not consider that the application of the new standard will have a material impact on the carrying balance of its financial instruments.

- *AASB 16 Leases* (effective 1 July 2019) will require lessees to recognise a right-of-use asset and a lease liability on the balance sheet for all leases with a term of more than 12 months, unless the underlying asset is of low value. Finance has forward year operating lease commitments of $351.1m for Departmental expenses and $152.1m for Administered expenses (refer to Note G1 for further information). Lessor accounting under AASB 16 remains substantially unchanged and lessors will continue to classify leases as operating or finance, and account for those two types of leases differently. Disclosures relating to the domestic property portfolio that Finance manages as lessor will require amendment including improved information about risk exposure.

- *AASB 15 Revenue from Contracts with Customers* (effective 1 July 2019) requires revenue to be recognised in accordance with the satisfaction of performance obligations under a contract. Depending on whether certain criteria are met, revenue is recognised either over time, in a manner that best reflects the company’s performance, or at a point in time, when control of the goods or services is transferred to the customer. Certain costs to fulfil a contract or incremental costs of obtaining a contract may qualify for capitalisation under the new standard. A five-step model is applied to determine when to recognise revenue, and at what amount. There will be minimal impact for the department when applying the new standard. Additional disclosures are required for qualitative and quantitative information on Finance’s contracts with customers, significant judgements and any asset recognised.

B. Budgetary Variance Reporting

The following are explanations of events that have impacted on Finance's operations and activities for the year that were not provided for in the budget or otherwise included against relevant note disclosures. Users should note that a number of these items have been included in subsequent budgets. Budget numbers are sourced from Finance's PBS for 2017-18 and are provided to the right of primary statements in italics to clearly distinguish them from actual results. Budgeted numbers are not audited.

Major variances are those deemed relevant or most significant to an analysis of Finance's performance by management, not focussed merely on numerical differences between the actual and budgeted amounts. A note reference is included against the relevant primary statement/schedule line item which corresponds to the explanations provided below and elsewhere in the financial statements.

When providing explanations, Finance has identified the financial impact in relation to those key aggregates relevant to Finance's performance. Users should be aware that there will be consequential impacts on related statements i.e. a variance in the Statement of Comprehensive Income is likely to have consequential impacts in the Statement of Financial Position and the Cash Flow Statement.

The Statement of Financial Position budget for 2017-18 was prepared based on 2015-16 financial results, with adjustments for predicted or known movements at that time.

Note Reference	Affected line Items	Variance Reporting
B1: Consultants and contractors	Consultants and contractors	Budget variances due to the deferral of expenditure relating to new policy proposals for major infrastructure projects including delivering Inland Rail and Western Sydney Airport, and departmental investment activity from the Public Service Modernisation Fund.
B2: General insurance activities	Insurance claims expense Outstanding insurance claims	Insurance liabilities are subject to uncertainty in the estimation process as the ultimate outcome of claims is subject to events that have not yet occurred. Finance takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures, with estimates and judgements regularly updated based on historical experience and other factors. Lower claims expenses for 2017-18 is due to the absence of large Property claims where the budget is set with a long term view and is not indicative of a loss in an individual year.
B3: Property	Gains Land Buildings Investment properties Return of equity - special accounts Other provisions Asset revaluation reserves Proceeds from sale	The Commonwealth's domestic property portfolio has budget variances due to: • revaluation gains for land, buildings mainly due to the Commonwealth Law Courts; • revaluation gains in investment properties (some write-downs were expected but did not eventuate); • gains from the divestment of properties in the Parliamentary triangle, with the proceeds returned to the Consolidated Revenue Fund (CRF) (reflected in 'Return of equity - special accounts'); • reclassification of assets as held for sale resulting from the Commonwealth's continued divestment strategy; • transfer of the Prime Minister's official establishments to the Department of the Prime Minister and Cabinet (PM&C); and • new policy for remediation work on the Wagait shire tip site.

B4: Superannuation	Superannuation expense Superannuation Provision	Budget variances are due to differences in the discount rates used for budgeting and financial reporting. The budgeted superannuation provision and expense use the discount rate in the Long Term Cost Reports to reduce volatility that would occur if the long-term government bond rate, which is required by Australian Accounting Standards for financial reporting, was applied. Any change in the rates used for budget and financial reporting purposes significantly impacts on the superannuation provisions and superannuation expense.
B5: Investment Funds	Distribution to portfolio special accounts Investment fund earnings[1] Net assets[2]	Due to the volatile nature of investment markets it is difficult to predict the final outcomes and values of some individual line items such as foreign exchange gains and loss. For budgeting of net asset balances, earnings and expenditure, Finance forecasts at an aggregated level. The net asset balance for the investment funds are higher than originally budgeted for due to: • ongoing negotiations on the National Partnership Agreement for the DisabilityCare Australia Fund. As a consequence, only partial reimbursements were provided to States in 2017-18 and no reimbursement was provided to the Commonwealth; • cessation of the Building Australia Fund and Education Investment Fund not occurring due to delays in the passage of the enabling legislation through Parliament; and • better than expected financial performance of the funds.

[1] Comprised of Investment funds - interest on term deposits, Investment fund - dividends, Investment funds - gain on financial instruments offset by Investment funds - foreign exchange losses.

[2] Comprised of Investment funds - loans and receivables, Investment funds - financial assets at FVPL offset by Investment funds - financial liabilities and derivative liabilities.

C. General Business Disclosures

This section includes disclosures for operations which are significant in size and/or nature for Finance. In 2017-2018, these areas include general insurance activities, the investment funds and superannuation.

C1 : General insurance activities

Finance provides insurance and risk management services to Australian General Government Sector entities. The classes of business cover include: Liability, Property, Motor Vehicle, and Personal Accident and Travel.

These services are funded from the Comcover Special Account (refer to Note F3.1).

Policy and measurement

Premium revenue
Premium revenue includes amounts charged but excludes GST. Premiums are recognised as revenue over the period insured which is from 1 July to 30 June each year.

Notional reinsurance expense
Finance pays a notional reinsurance charge of $5.0 million to the Official Public Account (OPA) which is recognised as an expense when paid.

Reinsurance and other recoveries
Reinsurance and other recoveries received or receivable in respect of gross claims paid and movements in reinsurance and other recovery assets are recognised as revenue in the year they occur.

Reinsurance and other recovery assets are actuarially assessed as the present value of the expected future receipts, calculated on the same basis as the outstanding claims liability.

Claims expense and outstanding claims liabilities
Claims expense represents claims payments and the movement in the gross outstanding claims liability.

The outstanding claims liability is actuarially assessed and measured at the central estimate of the present value of expected future payments of claims incurred at the reporting date with an additional risk margin to allow for inherent uncertainty in the central estimate. The expected future payments include those in relation to unpaid reported claims; claims incurred but not reported (IBNR); claims incurred but not enough reported (IBNER); and indirect expenses that are expected to be incurred in settling these claims. Changes in claims estimates are recognised in the surplus/deficit in the year in which the estimates are changed.

Assets backing general insurance liabilities
The balance of the Comcover Special Account and receivables from insurance activities are held to back general insurance liabilities. For further information in relation to the Comcover Special Account, refer to Note F3.1.

Key judgements and estimates

Finance takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. The claim estimates and judgements are regularly evaluated and updated based on historical experience and other factors. However, given the uncertainty in the estimation process, it is likely that the final outcome will prove to be different from the original liability established.

Finance’s activities are classified into two main categories: **Property** (Property, Motor Vehicle, and Personal Accident and Travel) and **Liability**. Different actuarial methods and assumptions are applied at a more granular level taking into account the characteristics of the class of business, claim type and the extent of the development of each past accident period.

The estimation of IBNR and IBNER are generally subject to a greater degree of uncertainty where claims notification and settlement may not happen for many years after the event giving rise to the claim. For this reason, Liability classes of business typically display greater variability between the initial estimates and final outcomes.

Key actuarial assumptions

The key actuarial assumptions for the determination of the outstanding claims liabilities are set out in the table below:

	30 June 2018		30 June 2017	
	Property	**Liability**	Property	Liability
Average discount rate	**2.0%**	**2.2%**	1.9%	2.0%
Average inflation rate	**2.4%**	**3.4%**	2.2%	3.5%
Average weighted term to settlement (years)	**1.6**	**2.7**	1.5	2.1
Expense rate	**1.4%**	**1.6%**	1.8%	1.5%
Risk margin	**16.0%**	**19.0%**	16.4%	13.4%

Process used to determine actuarial assumptions

Discount rate	To allow for the time value of money, projected payments are discounted at a risk free rate derived from market yields on Commonwealth Government securities at the reporting date.
Inflation rate	Claims inflation is incorporated into the resulting projected payments to allow for both expected levels of economic inflation and superimposed inflation. Economic inflation is based on economic indicators such as the consumer price index (CPI) and/or increases in average weekly earnings. Superimposed inflation is past claims inflation in excess of wage inflation. A review of past claims reveals no evidence of superimposed inflation.
Average weighted term to settlement	The average weighted term to settlement is based on historic payment patterns.
Expense rate	Claims handling expenses are calculated by reference to Finance's claims handling remuneration agreements for direct expenses and internal costs for indirect expenses.
Risk Margin	The risk margin is assessed by examining the historical variability of the claims experience, considering industry studies and benchmarks, and applying actuarial judgement, especially in respect of uncertainties not reflected in the claims data. This assessment is performed for each class of business. Diversification benefit is allowed for, with consideration given to industry studies and benchmarks.

Sensitivity analysis

Finance has conducted a sensitivity analysis to quantify the impact of changes in the key underlying assumptions on the surplus/(deficit). The sensitivity analysis has been performed for each variable independently of all other changes and is net of reinsurance and other recoveries. The table below describes how a change in each assumption will affect the surplus/(deficit).

		30 June 2018		30 June 2017	
		Property	**Liability**	Property	Liability
Assumption	**Movement**	**$'000**	**$'000**	$'000	$'000
Average discount rate	**+1%**	**2,415**	**6,360**	1,607	6,776
	-1%	**(2,319)**	**(6,048)**	(1,647)	(6,987)
Average inflation rate	**+1%**	**(2,485)**	**(6,601)**	(1,627)	(6,818)
	-1%	**2,539**	**6,810**	1,618	6,744
Average weighted term to settlement (years)	**+1 year**	**(626)**	**(2,490)**	(291)	(4,755)
	-1 year	**261**	**2,078**	347	4,894
Expense rate	**+1%**	**(1,438)**	**(2,324)**	(1,071)	(3,246)
	-1%	**1,438**	**2,324**	1,071	3,246
Risk margin	**+1%**	**(1,257)**	**(1,984)**	(937)	(2,907)
	-1%	**1,257**	**1,984**	937	2,907

The movements are the absolute movement in the assumption (e.g. +1% increase in the expense rate for Property from 1.8% to 2.8%).

Insurance risk management

Finance is exposed to insurance risk, which is discussed below.

Objectives, policies and processes for managing insurance risk

Finance provides insurance and risk management services to deliver a net benefit to the Australian Government over the longer term. The transfer of insurance risk from participating general government sector entities offers the most comprehensive and cost effective approach to the management of risk exposures. The provision of a captive fund focuses on improving risk identification and management in entities and increases in transparency and accountability to the Australian Government and the public.

Key processes to manage insurance risk include:

- Detailed risk exposure surveys and benchmarking tools identifying insurable risks;
- Actuarial modelling of claims history, exposures and industry experience to provide an estimate of expected claims costs for the insured year and to assist in the determination of the annual premium collection;
- Claim management and investigation processes;
- Appointment of an independent actuary for valuation services of the outstanding claims liability;
- WoAG policy development and risk management education to improve risk awareness and capability of fund members; and
- Governance frameworks within Finance.

Concentration of insurance risk

No reinsurance policies were placed in 2017-2018 (2016-2017: nil), reflecting the capacity of the Australian Government to cost-effectively self-insure against infrequent large claims.

C1.1 Underwriting result

	Departmental	
	30 June 2018 $'000	30 June 2017 $'000
Direct premium revenue		
Premium revenue	**138,344**	140,290
Premium revenue eliminated on consolidation	**1,181**	1,176
Total direct premium revenue	**139,525**	141,466
Notional reinsurance expense	**(5,000)**	(5,000)
Net premium revenue	**134,525**	136,466
Net incurred claims		
Insurance claims	**(97,246)**	(163,993)
Reinsurance and other recoveries revenue	**299**	1,823
Total net claims	**(96,947)**	(162,170)
Other underwriting expenses	**(8,282)**	(9,248)
Underwriting result	**29,296**	(34,952)
Revenue from government	**8,004**	9,067
Operating surplus/(deficit)	**37,300**	(25,885)

C1.2 Net claims incurred

	30 June 2018			30 June 2017		
	Current year $'000	**Prior years $'000**	**Total $'000**	Current year $'000	Prior years $'000	Total $'000
Gross claims incurred						
Undiscounted	**110,459**	**(15,748)**	**94,711**	103,563	59,764	163,327
Discount and discount movement	**(6,262)**	**4,857**	**(1,405)**	(5,658)	2,180	(3,478)
Gross claims incurred discounted	**104,197**	**(10,891)**	**93,306**	97,905	61,944	159,849
Reinsurance and other recoveries						
Undiscounted	**(678)**	**454**	**(224)**	(472)	(1,380)	(1,852)
Discount and discount movement	**2**	**(77)**	**(75)**	2	27	29
Reinsurance and other recoveries discounted	**(676)**	**377**	**(299)**	(470)	(1,353)	(1,823)
Net claims incurred	**103,521**	**(10,514)**	**93,007**	97,435	60,591	158,026
Claims handling expense			**3,940**			4,144
Total net claims			**96,947**			162,170

The $10.5 million decrease in prior years net claims incurred is due to valuation releases arising from overall favourable claims experience in the Liability and Property claims categories.

C1.3 Reinsurance and other recoveries receivable

	Departmental	
	30 June 2018 $'000	30 June 2017 $'000
Reinsurance and other recoveries		
Reinsurance and other recoveries	**3,363**	6,368
Discount to present value	**(329)**	(404)
Total reinsurance and other recoveries	**3,034**	5,964

C1.4 Outstanding claims liability

	Departmental	
	30 June 2018 $'000	30 June 2017 $'000
Gross claims liability - undiscounted	**335,740**	393,671
Discount to present value	**(16,456)**	(15,363)
Gross claims liability - discounted	**319,284**	378,308
Claims handling expense	**4,860**	6,062
Gross central estimate	**324,144**	384,370
Risk margin	**57,768**	54,293
Outstanding claims liability	**381,912**	438,663
Risk margin adopted	**17.8%**	14.1%
Probability of adequacy of the risk margin	**75%**	75%

Reconciliation of the movement in discounted outstanding claims liability

	30 June 2018			30 June 2017
	Property $'000	**Liability $'000**	**Total $'000**	Total $'000
Net outstanding claims liability at the beginning of the financial year	**108,671**	**324,028**	**432,699**	346,204
Incurred claims	**43,462**	**60,059**	**103,521**	97,435
Claims payments	**(23,357)**	**(123,471)**	**(146,828)**	(71,531)
Unwinding of discount	**1,370**	**3,673**	**5,043**	4,209
Risk margin release	**(2,415)**	**(5,454)**	**(7,869)**	(10,372)
Changes in assumptions and experience	**17,641**	**(25,329)**	**(7,688)**	66,754
Net outstanding claims liability at the end of the financial year	**145,372**	**233,506**	**378,878**	432,699
Reinsurance and other recoveries	**496**	**2,538**	**3,034**	5,964
Gross outstanding claims liability at the end of the financial year	**145,868**	**236,044**	**381,912**	438,663

C1.5 Claims development table

The following table shows the development of the estimated undiscounted outstanding claims relative to the ultimate expected claims for the 10 most recent accident years.

	Prior $'000	2009 $'000	2010 $'000	2011 $'000	2012 $'000	2013 $'000	2014 $'000	2015 $'000	2016 $'000	2017 $'000	2018 $'000	Total $'000
Estimate of net ultimate claims costs												
At end of accident year		45,062	50,778	121,801	61,550	66,779	114,162	102,138	91,686	86,286	93,055	
One year later		43,312	48,922	108,067	70,345	63,441	106,114	119,144	87,813	91,391		
Two years later		48,191	47,317	100,453	67,843	65,399	96,653	218,627	96,971			
Three years later		45,043	70,257	91,789	68,396	62,028	89,631	215,052				
Four years later		46,681	65,808	84,123	67,312	58,498	82,685					
Five years later		47,758	65,956	82,395	62,705	55,203						
Six years later		44,336	51,423	80,279	59,872							
Seven years later		44,757	49,163	80,399								
Eight years later		44,909	48,760									
Nine years later		45,057										
Estimate of net ultimate claims costs		45,057	48,760	80,399	59,872	55,203	82,685	215,052	96,971	91,391	93,055	
Cumulative payments		(44,896)	(48,196)	(78,000)	(50,895)	(47,361)	(53,427)	(153,105)	(33,659)	(21,566)	(10,553)	
Net claims liability - undiscounted	6,137	161	564	2,399	8,977	7,842	29,258	61,947	63,312	69,825	82,502	332,924
Discount to present value	(168)	(2)	(12)	(58)	(244)	(217)	(1,111)	(2,352)	(3,095)	(3,723)	(5,214)	(16,196)
Net claims liability - discounted	5,969	159	552	2,341	8,733	7,625	28,147	59,595	60,217	66,102	77,288	316,728
Claims handling expense												4,860
Net central estimate												**321,588**
Net risk margin												57,290
Total net outstanding claims liability												**378,878**
Reinsurance and other recoveries												3,034
Total gross outstanding claims liability												**381,912**

The claims development table discloses amounts net of reinsurance and other recoveries to give the most meaningful insight into the impact on surplus/(deficit).

C2 : Investment funds

Finance provides advice on investment mandates and governance arrangements for the investment funds. This includes advice on the credit of amounts to and debits of amounts from the investment funds. The Future Fund Board of Guardians (the Board), supported by the Future Fund Management Agency (FFMA), is responsible for the management and investment of the assets of the investment funds. The investment funds consist of the following:

- **Building Australia Fund (BAF)** - an investment fund established by the *Nation-building Funds Act 2008* to make payments in relation to the creation or development of transport, communication, eligible national broadband network, energy and water infrastructure. The BAF is expected to be closed by 31 December 2018, subject to the passage of legislation.
- **Education Investment Fund (EIF)** - an investment fund established by the *Nation-building Funds Act 2008* to make payments in relation to the creation or development of higher education, research, vocational education and training, and eligible education infrastructure and to make transitional Higher Education Endowment Fund payments. The EIF is expected to be closed by 31 December 2018, subject to the passage of legislation.
- **DisabilityCare Australia Fund (DCAF)** - an investment fund established by the *DisabilityCare Australia Fund Act 2013* to reimburse the Commonwealth, States and Territories for costs incurred in relation to the *National Disability Insurance Scheme Act 2013.*
- **Medical Research Future Fund (MRFF)** – an investment fund established under the *Medical Research Future Fund Act 2015* to support medical research and innovation into the future.

Key judgements and estimates

In applying Finance's accounting policies, management has made a number of judgements and applied estimates and assumptions to future events. Judgements and estimates which are material to the financial statements are located throughout the investment funds disclosure.

Policy and measurement

Investment Mandates were issued by the responsible Ministers on 14 July 2009 for the BAF and EIF and on 1 July 2014 for the DCAF. The Investment Mandates set a target benchmark return of the Australian three month bank bill swap rate + 0.3% per annum calculated on a rolling 12 month basis (net of fees). The Investment Mandates also require the Board to invest in such a way as to minimise the probability of capital losses over a 12 month horizon.

The Investment Mandate for the MRFF was issued by the responsible minister on 8 November 2015. This mandate states that the Board is to adopt an average return of at least the Reserve Bank of Australia Cash Rate target + 1.5 to 2.0% per annum, net of investment fees, over a rolling 10 year term as the benchmark return on the Fund. In targeting the benchmark return, the Board must determine an acceptable but not excessive level of risk measured in terms such as the probability of losses in a particular year.

All investments are designated as financial assets at fair value through profit or loss (FVPL) on acquisition. Subsequent to initial recognition, all investments held at FVPL are measured at fair value with changes in their fair value recognised in the Schedule of Comprehensive Income. Investments are recognised and derecognised on trade date where purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned. Investments are initially measured at fair value, net of transaction costs that are directly attributable to acquisition or issue of the investment. Investments in collective investment vehicles are recorded at fair value on the date which consideration is provided to the contractual counterparty under the terms of the relevant subscription agreement. Any associated due diligence costs in relation to these investments are expensed when incurred.

The following methods are adopted by the investment funds in determining the fair value of investments:

- Listed securities, exchange traded futures and options and investments in listed managed investment schemes are recorded at the quoted market prices on relevant stock exchanges.
- Unlisted managed investment schemes and collective investment vehicles are re-measured by the investment funds based on the estimated fair value of the net assets of each scheme or vehicle at the reporting date.
  In determining the fair value of the net assets of unitised unlisted managed investment schemes and collective investment vehicles, reference is made to the underlying unit price provided by the manager (where available), capital account statements and the most recent audited financial statements of each scheme or vehicle.

Manager valuation reports are reviewed to ensure the underlying valuation principles are materially compliant with AAS and applicable industry standards including International Private Equity and Venture Capital Valuation Guidelines as endorsed by the Australian Private Equity and Venture Capital Association Limited.

- Derivative instruments including forward foreign exchange contracts, interest rate swaps, credit default swaps and futures are recorded at their fair value on the date the contract is entered into and are subsequently re-measured to their fair values at each reporting date. Further disclosures regarding the use of derivatives by the investment funds is presented in Note C2.3.
- Asset backed securities, bank bills, negotiable certificates of deposit, mortgaged backed securities, government securities and corporate debt securities which are traded in active markets are valued at the quoted market prices. Securities for which no active market is observable are valued at current market rates using broker sourced market quotations and/or independent pricing services as at the reporting date.

MRFF Investment Companies (MRFFICs)

Whilst all investments are held by the Board in respect of the relevant investment fund, some investments are indirectly held through wholly owned investment holding companies, MRFFICs. The MRFFICs are funded primarily via loan arrangements from the MRFF and each respective MRFFIC. These loans are designated as financial assets and measured at fair value with changes in their fair value recognised in the Schedule of Comprehensive Income. Loan assets are repayable on demand. Interest rates are set on the loans having regard to the 10-year government bond rate in the market in which the underlying investment is made. As the MRFFICs hold a material portion of the investments of the investment funds, these are recorded on a net assets basis in Finance’s primary schedules. For risk management purposes these are disclosed by the underlying investment held by the MRFFICs as this provides users with more relevant information in relation to the investment portfolio and Finance’s exposure.

C2.1 Investment funds operating results

	BAF 30 June 2018 $'000	EIF 30 June 2018 $'000	DCAF 30 June 2018 $'000	MRFF 30 June 2018 $'000	Total 30 June 2018 $'000	Total 30 June 2017 $'000
Revenue						
Gains on financial investments						
Realised foreign exchange gains	**2,226**	**4,248**	**24,720**	**-**	**31,194**	208,955
Net unrealised foreign exchange gains	**-**	**-**	**-**	**-**	**-**	48,056
Bank bills and negotiable certificates of deposit	**30,103**	**23,433**	**71,468**	**29,733**	**154,737**	105,913
Mortgage backed securities	**9,380**	**8,084**	**28,125**	**9,573**	**55,162**	43,241
Corporate debt securities	**12,403**	**16,022**	**19,865**	**19,337**	**67,627**	81,388
Government debt securities	**399**	**613**	**674**	**2,965**	**4,651**	4,471
Asset backed securities	**2,940**	**3,016**	**11,025**	**7,353**	**24,334**	11,577
MRFFICs loans	**-**	**-**	**-**	**13,849**	**13,849**	5,084
Other income	**1,056**	**1,461**	**1,253**	**3,718**	**7,488**	5,625
Realised gains (losses)	**(4,020)**	**(1,102)**	**(32,152)**	**42,125**	**4,851**	100,192
Unrealised gains (losses)	**34,948**	**44,831**	**118,070**	**201,790**	**399,639**	(175,196)
Total net gains on financial investments	**89,435**	**100,606**	**243,048**	**330,443**	**763,532**	439,306
Interest	**23,568**	**23,362**	**79,683**	**14,272**	**140,885**	91,566
Dividends and distribution income	**-**	**-**	**-**	**36,716**	**36,716**	13,228
Total revenue	**113,003**	**123,968**	**322,731**	**381,431**	**941,133**	544,100
Expenses						
Net realised foreign exchange losses	**-**	**-**	**-**	**6,614**	**6,614**	-
Net unrealised foreign exchange losses	**28,633**	**41,672**	**99,891**	**48,890**	**219,086**	6,925
Suppliers expenses	**3,776**	**4,113**	**7,016**	**11,831**	**26,736**	22,294
Total expenses	**32,409**	**45,785**	**106,907**	**67,335**	**252,436**	29,219
Net investment funds return	**80,594**	**78,183**	**215,824**	**314,096**	**688,697**	514,881
Distributions to portfolio special accounts	**-**	**-**	**129,897**	**-**	**129,897**	83,469
Net surplus	**80,594**	**78,183**	**85,927**	**314,096**	**558,800**	431,412

C2.2 Investment funds financial position

	BAF 30 June 2018 $'000	EIF 30 June 2018 $'000	DCAF 30 June 2018 $'000	MRFF 30 June 2018 $'000	Total 30 June 2018 $'000	Total 30 June 2017 $'000
Assets						
Financial assets designated at FVPL						
Interest bearing securities						
Bank bills	-	-	-	303,649	303,649	185,648
Negotiable certificates of deposit	1,564,098	1,391,211	6,515,630	1,257,224	10,728,163	8,066,177
Corporate debt securities	585,047	759,813	1,119,867	596,962	3,061,689	2,899,882
Mortgage backed securities	359,426	324,304	1,465,570	312,855	2,462,155	1,624,999
Government debt securities	28,011	43,785	71,803	40,348	183,947	329,593
Asset backed securities	139,601	145,144	471,165	338,702	1,094,612	887,668
Other fixed income securities	53,580	81,778	54,392	210,455	400,205	201,769
Other investment						
MRFFICs equities	-	-	-	135,348	135,348	92,306
MRFFICs loans	-	-	-	778,840	778,840	404,765
Listed equities and managed investment schemes	-	-	-	1,099,917	1,099,917	436,821
Collective investment vehicles	-	-	69,527	1,343,251	1,412,778	827,275
Restricted cash	15,876	23,222	53,435	57,386	149,919	116,312
Derivatives						
Currency contracts	2,454	3,658	2,852	18,471	27,435	116,873
Interest rate swap agreements	875	1,781	-	14	2,670	731
Credit default swaps	-	-	-	2,866	2,866	3
Total financial assets designated at FVPL	2,748,968	2,774,696	9,824,241	6,496,288	21,844,193	16,190,822
Loans and receivables						
Cash and cash equivalents	1,133,609	1,113,864	4,904,162	749,432	7,901,067	6,465,976
Interest receivable	1,672	1,646	5,430	289	9,037	9,322
Dividends and distribution receivables	-	-	-	4,066	4,066	1,833
Unsettled sales	7,970	-	37,082	9,995	55,047	20,409
Imputation credits refundable	-	-	-	10,393	10,393	3,944
Total loans and receivables	1,143,251	1,115,510	4,946,674	774,175	7,979,610	6,501,484
Total assets	3,892,219	3,890,206	14,770,915	7,270,463	29,823,803	22,692,306
Liabilities						
Financial liabilities designated at FVPL						
Derivatives						
Currency contracts	16,253	22,707	51,307	53,355	143,622	8,474
Interest rate swap agreements	1,240	2,350	-	-	3,590	1,305
Credit default swaps	-	-	-	10,115	10,115	3,626
Total financial liabilities designated at FVPL	17,493	25,057	51,307	63,470	157,327	13,405
Financial liabilities measured at amortised cost						
Trade creditors and accruals	976	1,073	2,060	3,193	7,302	5,896
Unsettled purchases	7,968	-	37,075	38,687	83,730	94,019
Total financial liabilities measured at amortised cost	8,944	1,073	39,135	41,880	91,032	99,915
Total liabilities	26,437	26,130	90,442	105,350	248,359	113,320
Net assets	3,865,782	3,864,076	14,680,473	7,165,113	29,575,444	22,578,986

Collective investment vehicles

The investment funds, directly and via the MRFFICs, have committed to provide capital to various collective investment vehicles. Collective investment vehicles are entities that enable investors to pool their money and invest the pooled funds, rather than buying securities directly. Collective investment vehicles are used to invest in private equity funds, hedge funds, debt funds, listed equity funds, infrastructure funds and property funds and are usually structured as interests in limited partnerships and limited liability companies. The total of these commitments at balance date is $386 million (2017: $95 million). The investment fund's commitments, being capital calls, are set out in the various underlying subscription documents. While the actual timing of the capital calls to be made by the managers of these vehicles is uncertain, as it is dependent on the managers sourcing suitable investment opportunities, the investment funds have recorded the commitments as being current in accordance with the underlying legal documents. The investment funds have appropriate liquidity planning in place to ensure a suitable allocation of resources will be available to cover these future commitments of capital.

The table below provides more detailed information on the commitments and outstanding calls of collective investment vehicles held directly by the MRFF, DCAF and via MRFFICs at balance date:

Description of underlying Strategy	Capital committed as at 30 June 2018 local currency		Outstanding commitments as at 30 June 2018 AUD equivalent $'000	Net capital cost as at 30 June 2018 AUD equivalent $'000	Fair value as at 30 June 2018 AUD equivalent $'000
Directly held by MRFF and DCAF					
Alternatives	**AUD**	**982,500**	**-**	**948,951**	**957,829**
Debt	**AUD**	**400,000**	**-**	**400,010**	**396,086**
Debt	**USD**	**40,000**	**21,655**	**31,375**	**33,367**
Global infrastructure	**USD**	**50,000**	**67,673**	**-**	**-**
Listed equities	**AUD**	**25,000**	**-**	**25,000**	**25,205**
Property	**AUD**	**25,187**	**33,836**	**241**	**291**
Total			**123,164**	**1,405,577**	**1,412,778**
Via MRFFICs					
Alternatives	**AUD**	**378,443**	**-**	**396,511**	**379,399**
Alternatives	**USD**	**161,492**	**15,423**	**198,379**	**203,756**
Private equity	**AUD**	**101,275**	**59,078**	**41,481**	**42,290**
Private equity	**EUR**	**52,682**	**14,905**	**39,985**	**52,569**
Private equity	**USD**	**234,075**	**144,201**	**136,274**	**178,503**
Property	**AUD**	**24,813**	**29,334**	**4,070**	**4,292**
Total			**262,941**	**816,700**	**860,809**

C2.3 Managing financial risk

The investment funds have entered into derivative contracts to manage their exposure to foreign exchange risk, interest rate risk, equity market risk and credit risk. The investment funds also use derivatives to gain indirect exposure to market risks. The use of derivative financial instruments by the investment funds is governed by the *Nation-building Funds Act 2008*, the *DisabilityCare Australia Fund Act 2013* and the *Medical Research Future Fund Act 2015*.

C2.3.1 Market risk

Market risk is the risk of loss arising from movements in the prices of various assets flowing from changes in interest rates and foreign currency.

Interest rate risk

Interest rate risk exposure

The investment funds are exposed to risk of loss arising from movement in the prices of various assets flowing through interest rate changes. The total exposure for each class of financial asset is set out below.

Financial assets exposed to interest rate risk 2018	**Floating interest rate $'000**	**Fixed interest rate $'000**	**Non-interest bearing $'000**	**Total $'000**
Cash and cash equivalents	**7,901,067**	**-**	**-**	**7,901,067**
Interest bearing securities	**5,680,397**	**12,603,583**	**-**	**18,283,980**
Other financial assets	**-**	**-**	**3,638,755**	**3,638,755**
Total investment	**13,581,464**	**12,603,583**	**3,638,755**	**29,823,802**
Total interest rate swaps (notional amount)				
Pay	**(310,252)**	**(213,668)**	**-**	
Receive	**213,668**	**310,252**	**-**	
2017				
Cash and cash equivalents	6,465,976	-	-	6,465,976
Interest bearing securities	3,772,130	10,423,606	-	14,195,736
Other financial assets	-	-	2,030,594	2,030,594
Total investment	10,238,106	10,423,606	2,030,594	22,692,306
Total interest rate swaps (notional amount)				
Pay	(245,922)	(114,428)	-	
Receive	114,428	245,922	-	

Interest rate derivative contracts

The investment funds had open positions in exchange traded interest rate futures contracts and interest rate swap agreements at the reporting date. Interest rate derivatives contracts are used by the investment fund's managers to manage the exposure to interest rate risk and to ensure it remains within approved limits. The notional value of the open contracts and their fair value are set out below.

	Notional value 30 June 2018 $'000	**Fair market value 30 June 2018 $'000**	Notional value 30 June 2017 $'000	Fair market value 30 June 2017 $'000
Open contracts				
Buy domestic interest rate futures contracts	**379,080**	**2,625**	243,344	(2,591)
Sell domestic interest rate futures contracts	**(1,187,986)**	**(474)**	(180,967)	443
Buy international interest rate futures contracts	**531,321**	**3,219**	1,221,606	(4,108)
Sell international interest rate futures contracts	**(2,221,695)**	**(1,690)**	(2,852,079)	79,650
Receiver (fixed) interest rate swap agreements	**310,252**	**(1,642)**	245,922	(200)
Payer (fixed) interest rate swap agreements	**(213,668)**	**722**	(114,428)	(374)
Total open contracts		**2,760**		72,820

Interest rate sensitivity analysis

The impact of a change in interest rates is disclosed in the table below, with all other variables held constant. The table demonstrates the impact on the operating result of a 20 basis point (2017: 30 basis point) change in bond yields with all other variables held constant. It is assumed that the 20 basis point change occurs as at the reporting date and there are concurrent movements in interest rates and parallel shifts in the yield curves. A 20 basis point movement would impact on the debt portfolios' (including derivatives) contribution to the investment funds' operating result. The impact on the operating result includes the increase/(decrease) in interest income on floating rate securities from the basis point change.

Sensitivity by year	Risk variable	Change in risk variable	Net cost of services
		%	$'000
2018	**Discount rate**	**+0.2%**	**21,257**
		-0.2%	**(21,230)**
2017	Discount rate	+0.3%	28,426
		-0.3%	(25,210)

Foreign currency risk

The investment funds undertake certain transactions denominated in foreign currencies and are therefore exposed to the effects of exchange rate fluctuations. Exchange rate exposures are managed utilising forward foreign exchange contracts. The exposure in AUD equivalents to foreign currency risk at reporting date is as follows.

Financial assets exposed to currency risk	USD	EURO	GBP	Other	Total
2018	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Cash and cash equivalents	**142,278**	**91,625**	**8,409**	**11,167**	**253,479**
Interest bearing securities	**2,705,853**	**869,000**	**1,114,505**	**828,299**	**5,517,657**
Listed equities	**447,992**	**62,082**	**31,704**	**286,987**	**828,765**
Collective investment vehicles	**420,209**	**52,569**	**-**	**-**	**472,778**
Other investments	**(6,971)**	**(305)**	**154**	**(1,025)**	**(8,147)**
Receivables	**52,820**	**2,733**	**163**	**1,184**	**56,900**
Payables	**(67,906)**	**(9,027)**	**-**	**(6,723)**	**(83,656)**
Total physical exposure	**3,694,275**	**1,068,677**	**1,154,935**	**1,119,889**	**7,037,776**
Forward exchange contracts					
Buy foreign currency	**968,692**	**296,923**	**236**	**19,556**	**1,285,407**
Sell foreign currency	**(3,844,478)**	**(1,379,591)**	**(1,160,985)**	**(740,684)**	**(7,125,738)**
Total derivative exposure	**(2,875,786)**	**(1,082,668)**	**(1,160,749)**	**(721,128)**	**(5,840,331)**
Net exposure	**818,489**	**(13,991)**	**(5,814)**	**398,761**	**1,197,445**
Financial assets exposed to currency risk					
2017					
Cash and cash equivalents	166,145	145,664	17,409	2,664	331,882
Interest bearing securities	2,588,045	786,828	935,295	487,845	4,798,013
Listed equities	176,180	35,579	18,735	57,021	287,515
Collective investment vehicles	359,017	62,149	-	-	421,166
Other investments	(3,843)	(184)	86	(203)	(4,144)
Receivables	10,202	393	105	72	10,772
Payables	(62,422)	(1,909)	(5,169)	(12,766)	(82,266)
Total physical exposure	3,233,324	1,028,520	966,461	534,633	5,762,938
Forward exchange contracts					
Buy foreign currency	644,388	222,139	2,369	179,289	1,048,185
Sell foreign currency	(3,219,690)	(1,256,797)	(966,600)	(591,455)	(6,034,542)
Total derivative exposure	(2,575,302)	(1,034,658)	(964,231)	(412,166)	(4,986,357)
Net exposure	658,022	(6,138)	2,230	122,467	776,581

Foreign currency sensitivity analysis

The sensitivity analysis table below demonstrates the impact on the operating result of a movement in the value of the AUD relative to the actual net exposures as at year end, with all other variables held constant.

Sensitivity by year	Risk variable	Change in risk variable	Net cost of services
		%	$'000
2018	**Exchange rate**	**+9.2%**	**266,457**
		-9.2%	**(266,457)**
2017	Exchange rate	+10.2%	168,120
		-10.2%	(168,120)

Other price risk

The MRFF and MRFFICs are exposed to price risk arising from equity investments. The equity price risk is the risk that the value of the MRFF equity portfolio will decrease as a result of changes in the levels of equity indices and the price of individual stocks. The MRFF and MRFFICs are held at FVPL. The exposure to equity price risk at the reporting date was as follows:

	30 June 2018 $'000
Domestic equities and managed investment schemes	271,152
International equities and managed investment schemes	828,765
Total equity price risk exposure	**1,099,917**

Equity derivative contracts

Equity futures are used to manage the exposure to equity price risk. The notional value and fair value of the MRFF open positions at 30 June 2018 are set out in the following table.

	Notional value 30 June 2018 $'000	Fair market value 30 June 2018 $'000
Buy domestic equity futures contracts	2,459	49
Sell domestic equity futures contracts	(8,915)	(105)
Buy international equity futures contracts	250,019	(8,217)
Total equity derivative contracts	**243,563**	**(8,273)**

Equity price sensitivity analysis

The analysis below demonstrates the impact of the following movements on the MRFF and MRFFIC's operating result.

- +/- 20% on Australian equities
- +/- 15% on International equities

The sensitivity analysis has been performed to assess the direct risk of holding equity instruments. The analysis is undertaken on the base currency values of the underlying exposures.

Impact on operating results	30 June 2018 $'000
20% increase in Australian equities	64,685
15% increase in International equities	250,036
Total	**314,721**
20% decrease in Australian equities	(64,796)
15% decrease in International equities	(250,053)
Total	**(314,849)**

C2.3.2 Liquidity risk

Liquidity risk is the risk that the investment funds will not be able to meet their obligations as they fall due. The Nation Building Funds (NBFs) and DCAF are currently invested in cash and cash like instruments under the current Investment Mandate. Accordingly, the risk of these funds not being able to meet their obligations is low. The MRFF must be in a position to meet the distribution payments required of it up to the amount periodically declared as distributable by the Board, which is managed under the Short-term Liquidity Risk Policy. This includes a short-term crash test which is applied to the portfolio to ensure it is able to meet its immediate cash flow obligations under a plausible but very severe market dislocation.

C2.3.3 Credit risk management

Credit risk is the risk of loss that arises from a counterparty failing to meet their contractual commitments in full and on time, or from losses arising from the change in value of a traded financial instrument as a result of changes in credit risk on that instrument. The Board sets limits on the credit ratings of debt investments when appointing investment managers. These limits are reflected in the underlying investment mandates and are monitored by the FFMA with compliance reported to the Board. The investment fund's maximum exposure to credit risk at reporting date in relation to each class of recognised financial asset is the carrying amount of those assets as indicated in the investment fund’s financial position.

Interest bearing securities issued by	**30 June 2018 $'000**	30 June 2017 $'000
Commonwealth Bank of Australia	**7,397,106**	5,129,916
Westpac Banking Corporation	**1,679,351**	2,176,750
National Australia Bank	**3,228,698**	2,329,367
Australia and New Zealand Banking Group	**4,824,166**	4,066,284
Total	**17,129,321**	13,702,317

As at 30 June 2018, the investment funds had an exposure of greater than 58% of its net assets to interest bearing securities issued by domestic banks and cash deposits held with banks. Exposures to individual counterparties greater than 5% of the net assets of the investment funds are identified in this table.

Credit exposure by credit rating

	30 June 2018 $'000	30 June 2017 $'000
Long-term rated securities		
AAA	**3,578,802**	2,412,711
AA	**8,165,458**	6,719,131
A	**2,481,610**	2,673,234
BBB	**161,697**	48,901
Below investment grade/not rated	**588,923**	300,483
Short-term rated securities		
A-1+	**10,988,986**	8,251,826
A-2	**42,826**	-
Other		
US Government Guaranteed	**176,746**	255,427
Total debt securities held	**26,185,048**	20,661,713
Other non-debt financial assets	**3,638,755**	2,030,593
Total financial assets	**29,823,803**	22,692,306

The investment funds use Moody's and Standard & Poors credit rating scales to report exposure to credit risk. The long term credit risk exposures range from ‘AAA’ (extremely strong capacity to meet financial commitments) to ‘below investment grade/not rated’. The investments classified as below investment grade are held in debt mandates. This table provides information regarding the credit risk exposures of the debt instruments held by the investment funds at reporting date according to the credit ratings of the underlying debt instruments.

Credit risk derivatives

The investment funds managers utilise credit default swaps to gain exposure to, and to hedge, credit risk. The investment funds transact in credit default swaps in the form of centrally cleared over-the-counter contracts. Centrally cleared transactions are cash margined at least daily. Managers are required to fully cash back all sold credit protection positions. Outstanding positions are marked to market and collateralisation of out of the money positions is required by the central clearing exchange.

	Notional value 30 June 2018 $'000	Fair market value 30 June 2018 $'000
Buy credit protection	175,123	(10,115)
Sell credit protection	(186,980)	2,866
Total	**(11,857)**	**(7,249)**

The notional value of the open credit default swap positions, the impact on increasing or reducing credit exposures and their fair value are set out in this table for the MRFF.

C3 : Superannuation

C3.1 Overview of schemes

Finance administers the following defined benefit superannuation schemes on behalf of the government:

- Commonwealth Superannuation Scheme (CSS), including the 1922 Scheme;
- Public Sector Superannuation Scheme (PSS);
- Parliamentary Contributory Superannuation Scheme (PCSS);
- Governor-General Pension Scheme (G-GPS);
- Judges' Pensions Scheme (JPS), and
- Federal Circuit Court Judges Death and Disability Scheme (FCCJDDS).

The CSS, PSS and PCSS are closed to new members.

Finance recognises an administered liability for the present value of the Australian Government's expected future payments arising from the PCSS, JPS, G-GPS and FCCJDDS and the unfunded components of the 1922 Scheme, CSS and PSS. These liabilities are based on an annual actuarial assessment. The funded components of these schemes are reported in the financial statements of the respective schemes. Finance also has the responsibility to record the Australian Government's transactions in relation to the above schemes.

Policy and measurement

Actuarial gains or losses are recognised in equity in the year in which they occur. Interest on the net defined benefit liability is recognised in the surplus/(deficit); the return on plan assets excluding the amount included in interest income is recognised in equity.

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 government bond rate at the reporting date.

Amounts recognised in the Schedule of Comprehensive Income and Schedule of Assets and Liabilities

			Other				
	CSS	PSS	PCSS	G-GPS	JPS	FCCJDDS	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
30 June 2018							
Revenues	**87,592**	**1,125,818**	**628**	**-**	**-**	**-**	**1,214,038**
Expenses	**2,551,579**	**5,777,690**	**45,821**	**744**	**82,735**	**893**	**8,459,462**
OCI	**(1,379,037)**	**(5,248,775)**	**(25,436)**	**(957)**	**(134,461)**	**804**	**(6,787,862)**
Liabilities	**82,895,248**	**97,480,728**	**1,167,342**	**22,188**	**1,500,165**	**1,362**	**183,067,033**
30 June 2017							
Revenues	102,724	1,171,578	655	-	-	-	1,274,957
Expenses	2,449,306	6,381,040	40,642	577	88,722	925	8,961,212
OCI	2,625,127	18,929,411	102,364	(851)	71,762	606	21,728,419
Liabilities	82,539,357	87,317,499	1,138,463	22,036	1,333,185	1,728	172,352,268

C3.2 Scheme information

The funding arrangements for the various schemes are as follows:

Scheme	Funding arrangements
1922 Scheme	Unfunded. There are no longer any members contributing under this Act. Benefits are paid to members from the Consolidated Revenue Fund (CRF).
CSS and PSS	Partially funded. Contributions generally comprise basic member contributions and employer productivity (up to three per cent) contributions. Benefits are paid to members from the CRF.
PCSS	Unfunded. Member contributions are a fixed percentage of: parliamentary allowance; salary for Ministers of State; and allowance by way of salary for office holders, which is paid into the CRF. Benefits are paid to members from the CRF.
G-GPS, JPS and FCCJDDS	Unfunded. Members are not required to contribute towards the cost of their benefit during their term of appointment. Benefits are paid to members from the CRF.

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

Scheme	Benefits Paid
1922 Scheme	• The benefit payable is a lifetime indexed pension (indexed in January and July) in line with changes in the CPI. The payments and liabilities in respect of these members are included in the CSS amounts.
CSS	• The types of benefits payable are a lifetime indexed pension (indexed in January and July) in line with changes in the CPI, a lifetime non-indexed pension and a lump sum payment. The main retirement benefit is the employer-financed indexed pension that is calculated by a set formula based on a member's age, years of contributory service and final salary. • Where a member has preserved their benefit in the scheme, when the benefit becomes payable the employer financed 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. • 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, and in the case of the non-indexed pension by applying age-based factors.
PSS	• The types of benefits payable are a lifetime indexed pension (indexed in January and July in line with changes in the CPI) and lump sum. On retirement a lump sum benefit is payable which is calculated 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). • Where a member preserves their benefit in the scheme, 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. • Generally members can convert 50 per cent or more of their lump sum to a lifetime indexed pension. The indexed pension is calculated by applying age-based factors to the amount of lump sum to be converted to a pension.
PCSS	• The benefit payable is a lifetime pension or lump sum depending on length of service and additional offices held. • Where a retiring member has sufficient parliamentary service to meet the pension qualification period for a lifetime pension (which is payable as set out in the Act), pension benefits are expressed

	as a percentage of the superannuation salary applicable for the PCSS and are indexed by movements in that superannuation salary. • A PCSS member who qualifies for a pension can also elect to convert up to half of their benefit to a lump sum. Lump sum benefits are payable to PCSS members who do not have sufficient parliamentary service to qualify for a lifetime pension.
G-GPS	• The benefit payable is a lifetime pension equal to 60% of the salary of the Chief Justice of the High Court of Australia. • There is no minimum qualification period.
JPS	• The benefit payable is a lifetime pension equal to 60% of the judicial salary, payable where a judge has 10 or more years' service and is 60 years of age or older. • Provisions are made for part pension (pro-rated based on length of service) where a judge retires on reaching the maximum retirement age with at least 6 years but less than 10 years service.
FCCJDDS	• Federal Circuit Court Judges who retire due to permanent disability are provided with a pension equal to 60% of the salary the Judge would have received if they had not retired, and is payable until the earlier of the Judge attaining age 70, or his/her death. • In addition, a Judge continues to receive employer superannuation contributions in respect of this pension until they reach age 65.

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

Regulatory Framework

The following table details the enabling legislation for each of the individually disclosed defined benefit schemes and whether the scheme must comply with the requirements of the *Superannuation Industry (Supervision) Act 1993,* as well as a number of other Acts.

Scheme	Enabling Act	Period open to new members	Regulatory requirement
CSS	*Superannuation Act 1976*	1 July 1976 to 30 June 1990	Compliance with the *Superannuation Industry (Supervision) Act 1993* required for these schemes.
PSS	*Superannuation Act 1990*	1 July 1990 to 30 June 2005	
1922 Scheme	*Superannuation Act 1922*	1 July 1922 to 30 June 1976	These schemes are exempt from *Superannuation Industry (Supervision) Act 1993.*
PCSS	*Parliamentary Contributory Superannuation Act 1948*	Up to 8 October 2004	
G-GPS	*Governor-General Act 1974*	To present	
JPS	*Judges' Pensions Act 1968*	To present	
FCCJDDS	*Federal Circuit Court of Australia Act 1999*	To present	

Governance

The Commonwealth Superannuation Corporation (CSC) was established under the *Governance of Australian Government Superannuation Schemes Act 2011* and is the trustee for the CSS and PSS. CSC is responsible for:

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

CSC is supported by a custodian and other specialist providers.

The PCSS is administered by the Department of Finance on behalf of the Minister for Finance. The Parliamentary Retiring Allowances Trust (the Trust) has responsibility for matters where discretion has been given under the *Parliamentary Contributory Superannuation Act 1948*. The Trust consists of five trustees - the Minister for Finance (or a

Minister authorised by the Minister for Finance) who is the presiding trustee, plus two Senators and two Members of the House of Representatives appointed by their respective Houses.

The enabling Acts for the 'other' defined benefit superannuation schemes confer certain powers to the Secretary of Finance in relation to administration of each scheme. Day-to-day administration of the schemes is undertaken by Finance.

C3.3 Risks and assumptions

The schemes are exposed to 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.

Composition of scheme assets

The fair value of scheme assets for CSS and PSS at 30 June 2018 is $21.5 billion (30 June 2017 was $20.4 billion). The assets are diversified in the following sectors: Australian equity 24%; International equity 25%; Property 8%; Private capital 6%; Infrastructure 3%; Corporate bonds 4%; Alternative strategies 15% and Cash and sovereign bonds 15%. This includes $345.3 million (2017: $287.1 million) of Commonwealth Government Bonds.

Key judgements and estimates

Principal actuarial assumptions are as follows:

	2018	2017
Discount rate		
CSS and 1922 scheme	**2.9%**	3.0%
PSS and Other Schemes	**3.1%**	3.5%
Expected salary growth rate (CSS/PSS)	**2.0%pa to June 2022 3.5%pa thereafter +promotional increase**	2.0%pa to June 2019 3.5%pa thereafter +promotional increase
Expected pension increase rate (CPI)	**2.5%**	2.5%

Other material assumptions
CSS, PSS, and PCSS
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 scheme. Assumptions have also been made for the ages of spouses and rates of member contributions. These assumptions are consistent to those used within the 2017 Long Term Cost Reports (LTCRs).

Membership data as at 30 June 2017 has been rolled forward to 30 June 2018 by making allowance for estimated investment earnings, contributions, salary increases, benefit payments and benefit accruals, using the actuarial assumptions from the LTCRs where other information is not available. The defined benefit obligation calculated is based on the rolled forward membership data that was then adjusted to reflect the difference between expected benefit payments and actual benefit payment to 30 June 2018.

The fair value of scheme assets as at 30 June 2018 (CSS and PSS only) were estimated using the unaudited net scheme assets available to pay benefits at 31 May 2018 rolled forward to 30 June 2018 with cash flow items provided by the CSC. An estimate of the actual rate of investment return earned by the scheme during June 2018 was used in determining the fair value of scheme assets.

Other Schemes – G-GPS, JPS and FCCJDDS
Membership data as at 31 May 2018 has been rolled forward to 30 June 2018. Other actuarial assumptions are consistent to those used within the 2017 LTCRs.

Sensitivity analysis for significant actuarial assumptions

The impact of a change in the defined benefit obligation reported as at 30 June 2018 under several scenarios is presented below. The defined benefit obligation has been recalculated by changing the assumptions as outlined below, whilst retaining all other assumptions.

Assumption	Impact on defined benefit obligation					
	0.5% increase Movement in $'000			0.5% decrease Movement in $'000		
	CSS	PSS	Other	CSS	PSS	Other
Discount rate [1]	(5,055,026)	(10,401,332)	(185,991)	5,602,173	11,988,381	208,045
Salary growth rate	91,525	2,425,198	198,619	(86,385)	(2,276,857)	(179,675)
Pension increase rate	4,945,957	8,563,797	n/a	(4,519,458)	(7,681,024)	n/a

[1] An increase in the discount rate between financial years generates a decrease in the provision and a gain in other comprehensive income. Conversely, a decrease in the discount rate between financial years causes an increase in the defined benefit obligation (liability) and a loss to other comprehensive income.

C3.4 Commonwealth Superannuation Scheme (CSS)

Employer productivity contributions

The expected employer productivity contribution for 2019 is $10.4 million (2018 actual $12.3 million).

Maturity profile of defined benefit obligation

The weighted average duration of the defined benefit obligation is 13.0 years for CSS 1976 and 7.2 years for CSS 1922.

Reconciliation of the:	Present value of the defined benefit obligation		Fair value of the scheme assets		Net defined benefit liability	
	30 June 2018 $'000	30 June 2017 $'000	**30 June 2018 $'000**	30 June 2017 $'000	**30 June 2018 $'000**	30 June 2017 $'000
Value at beginning of the year	**85,330,627**	89,197,538	**2,791,270**	3,072,920	**82,539,357**	86,124,618
Current service cost	**137,970**	177,183	**-**	-	**137,970**	177,183
Interest cost	**2,490,486**	2,344,345	**-**	-	**2,490,486**	2,344,345
Interest income	**-**	-	**76,877**	72,222	**(76,877)**	(72,222)
Total expense	**2,628,456**	2,521,528	**76,877**	72,222	**2,551,579**	2,449,306
Actual return on scheme assets less interest income	**-**	-	**154,293**	162,175	**(154,293)**	(162,175)
Actuarial (gains) / losses adjusted in other comprehensive income arising from						
Changes in demographic assumptions	**161,056**	-	**-**	-	**161,056**	-
Changes in financial assumptions	**945,300**	(3,031,074)	**-**	-	**945,300**	(3,031,074)
Liability experience	**426,974**	568,122	**-**	-	**426,974**	568,122
Total other comprehensive income	**1,533,330**	(2,462,952)	**154,293**	162,175	**1,379,037**	(2,625,127)
Contributions by scheme participants	**43,528**	56,426	**43,528**	56,426	**-**	-
Productivity contributions	**12,319**	14,041	**12,319**	14,041	**-**	-
Net appropriation from CRF	**-**	-	**3,574,725**	3,409,440	**(3,574,725)**	(3,409,440)
Benefits paid	**(4,031,319)**	(3,993,754)	**(4,031,319)**	(3,993,754)	**-**	-
Taxes, premiums and expenses paid	**(1,934)**	(2,200)	**(1,934)**	(2,200)	**-**	-
Value at end of the year	**85,515,007**	85,330,627	**2,619,759**	2,791,270	**82,895,248**	82,539,357

The fair value of scheme assets relates to investments in the Pooled Superannuation Trust (PST). These are disclosed as level 2 in the fair value hierarchy, where the net market value is derived from observable inputs (other than quoted prices) such as prices or derived from prices.

C3.5 Public Sector Superannuation Scheme (PSS)

Employer productivity contributions

The expected productivity contributions for 2019 is $162.6 million (2018 actual $182.6 million).

Maturity profile of defined benefit obligation

The weighted average duration of the defined benefit obligation is 20.4 years.

Reconciliation of the:	Present value of the defined benefit obligation		Fair value of the scheme assets		Net defined benefit liability	
	30 June 2018 $'000	30 June 2017 $'000	**30 June 2018 $'000**	30 June 2017 $'000	**30 June 2018 $'000**	30 June 2017 $'000
Value at beginning of the year	**104,949,301**	117,145,347	**17,631,802**	16,532,797	**87,317,499**	100,612,550
Current service cost	**2,746,886**	3,672,212	**-**	-	**2,746,886**	3,672,212
Interest cost	**3,639,645**	3,147,248	**-**	-	**3,639,645**	3,147,248
Interest income	**-**	-	**608,841**	438,420	**(608,841)**	(438,420)
Total expense	**6,386,531**	6,819,460	**608,841**	438,420	**5,777,690**	6,381,040
Actual return on scheme assets less interest income	**-**	-	**1,018,529**	1,056,557	**(1,018,529)**	(1,056,557)
Actuarial (gains) / losses adjusted in other comprehensive income arising from						
Changes in demographic assumptions	**(947,376)**	-	**-**	-	**(947,376)**	-
Changes in financial assumptions	**6,750,306**	(20,058,075)	**-**	-	**6,750,306**	(20,058,075)
Liability experience	**464,374**	2,185,221	**-**	-	**464,374**	2,185,221
Total other comprehensive income	**6,267,304**	(17,872,854)	**1,018,529**	1,056,557	**5,248,775**	(18,929,411)
Contributions by scheme participants	**551,536**	520,909	**551,536**	520,909	**-**	-
Productivity contributions	**182,610**	172,842	**182,610**	172,842	**-**	-
Net appropriation from CRF	**-**	-	**863,236**	746,680	**(863,236)**	(746,680)
Benefits paid	**(1,919,616)**	(1,810,227)	**(1,919,616)**	(1,810,227)	**-**	-
Taxes, premiums and expenses paid	**(27,650)**	(26,176)	**(27,650)**	(26,176)	**-**	-
Value at end of the year	**116,390,016**	104,949,301	**18,909,288**	17,631,802	**97,480,728**	87,317,499

The fair value of scheme assets relates to investments in the PST. These are disclosed as level 2 in the fair value hierarchy, where the net market value is derived from observable inputs (other than quoted prices) such as prices or derived from prices.

C3.6 Other Schemes

For the purposes of disclosure, the smaller schemes have been grouped under "other":

	PCSS	G-GPS	JPS	FCCJDDS
	$'000	$'000	$'000	$'000
Expected benefit payments for 2019	**42,784**	**1,612**	**53,819**	**662**
	Years	Years	Years	Years
Maturity profile of defined benefit obligation	**15.6**	**9.2**	**14.6**	**1.5**

Reconciliation of the:	**Present value of the defined benefit obligation**		**Fair value of the scheme assets**		**Net defined benefit liability**	
	30 June 2018 $'000	30 June 2017 $'000	**30 June 2018 $'000**	30 June 2017 $'000	**30 June 2018 $'000**	30 June 2017 $'000
Value at beginning of the year	**2,495,412**	2,630,370	**-**	-	**2,495,412**	2,630,370
Current service cost	**44,515**	61,087	**-**	-	**44,515**	61,087
Interest cost	**85,678**	69,779	**-**	-	**85,678**	69,779
Total expense	**130,193**	130,866	**-**	-	**130,193**	130,866
Actuarial (gains) / losses adjusted in other comprehensive income arising from						
Changes in demographic assumptions	**16,165**	-	**-**	-	**16,165**	-
Changes in financial assumptions	**150,415**	(210,924)	**-**	-	**150,415**	(210,924)
Liability experience	**(6,530)**	37,043	**-**	-	**(6,530)**	37,043
Total other comprehensive income	**160,050**	(173,881)	**-**	-	**160,050**	(173,881)
Net appropriation from CRF	**-**	-	**94,599**	91,943	**(94,599)**	(91,943)
Benefits paid	**(94,599)**	(91,943)	**(94,599)**	(91,943)	**-**	-
Value at end of the year	**2,691,056**	2,495,412	**-**	-	**2,691,056**	2,495,412

C4 : Restructuring

	DTA[1] 30 June 2018 $'000	PM&C[2] 30 June 2018 $'000	IPEA[3] 30 June 2018 $'000	DTA[1] 30 June 2017 $'000	IPEA[4] 30 June 2017 $'000	IPEA[4] 30 June 2017 $'000
FUNCTIONS RELINQUISHED						
Assets relinquished						
Cash and cash equivalents	**96,063**	**-**	**-**	-	-	-
Trade receivables	**68,937**	**28**	**-**	3,443	1,027	107
Accrued revenue	**174**	**-**	**-**	-	-	-
Land	**-**	**44,000**	**-**	-	-	-
Buildings	**-**	**5,811**	**-**	-	-	-
Total assets relinquished	**165,174**	**49,839**	**-**	3,443	1,027	107
Liabilities relinquished						
Payables	**9,590**	**-**	**-**	807	-	3,945
Unearned revenue	**130,416**	**-**	**-**	-	-	-
Employee provisions	**-**	**28**	**2,769**	2,636	1,027	617
Total liabilities relinquished	**140,006**	**28**	**2,769**	3,443	1,027	4,562
Net assets/(liabilities) relinquished	**25,168**	**49,811**	**(2,769)**	-	-	(4,455)

[1] Whole of Australian Government Information and Communications Technology (WoAG ICT) policy, procurement and strategy-related functions transferred to the Digital Transformation Agency (DTA) following an administrative arrangements order on 27 October 2016. Relevant staff, appropriations, assets and liabilities were transferred in 2016-17, with a final transfer of assets and liabilities occurring on 1 July 2017 following the establishment of the *DTA ICT Coordinated Procurement Special Account.*

[2] Ownership and property management of the Prime Minister's official establishments transferred to the Department of Prime Minister and Cabinet (PM&C) following an administrative arrangements order on 30 November 2017.

[3] Administration of the *Parliamentary Retirement Travel Act 2002* (formerly the *Members of Parliament (Life Gold Pass) Act 2002*) transferred to the Independent Parliamentary Expenses Authority (IPEA) on 1 January 2018 following commencement of the *Parliamentary Business Resources Act 2017.*

[4] Finance transferred functions for: auditing, reporting, providing advice and processing claims relating to travel expenses and allowances of parliamentarians and MOP(S) Act staff to IPEA following a restructure of administrative arrangements on 3 April 2017.

Functions Assumed

There were no functions assumed in 2017-18. In 2016-17, Finance recognised net assets of $14 million for the transfer of shared services from the Education and Training and Employment portfolios.

D. Operating Resources

This section provides further information about major assets and liabilities held or administered by Finance, significant estimates and judgements made and the management of risk in relation to these items.

D1 : Financial instruments

Policy and measurement

A financial instrument is a contract between entities that gives rise to a financial asset of one entity and a financial liability or equity instrument of the other entity. Generally, financial instruments are recognised and derecognised on 'trade date' which is the date that the risks and rewards of ownership are transferred to the 'buyer'. Finance classifies its financial instruments in the following categories:

- **Loans and receivable assets:** includes cash and cash equivalents which are readily convertible to cash, trade receivables, loans and other receivables with fixed or determinable payments that are not quoted in an active market.
- **Held-to-maturity investments:** non-derivative financial assets with fixed or determinable payments and fixed maturities that an entity has a positive intention and ability to hold to maturity.
- **Available-for-sale financial assets:** non-derivative financial assets that are either designated in this category or are not classified in any other category.
- **Financial assets/liabilities FVPL:** assets and liabilities held for trading, or portions of an identified portfolio of financial instruments that are managed together and have a recent actual pattern of short term profit taking. Derivatives are classified as held for trading unless they are designated as hedges.
- **Financial liabilities held at amortised cost:** includes suppliers and other payables with a fixed or determinable amount to be paid that are not quoted in an active market.

All financial assets and liabilities are initially recognised at fair value (usually transaction price). For financial instruments not at FVPL, transaction costs are also added to the initial value.

Measurement	Type of financial instrument	Impairment (assessed annually)
At fair value, with all movements captured in the surplus/(deficit).	• Loans and receivables (short term). • Financial assets/liabilities at FVPL including any interest paid or earned.	N/A
At amortised cost using effective interest method, any valuation movement is recognised in the surplus/(deficit).	• Loans and receivables (long term). • Held-to-maturity investments. • Financial liabilities measured at amortised cost (supplier and other payables). • Interest and foreign exchange gains/losses on available for sale financial assets.	Impairment loss is measured as the difference between the carrying amount and the present value of discounted estimated future cash flows. Any asset impairment is shown as a reduction in the value of the asset by way of an allowance account, with the loss being recorded in the surplus/(deficit).
At fair value, with any valuation movement taken to equity (reserves).	• Available-for-sale financial assets, with the exception of interest and foreign exchange movements.	Any difference between the cost less principal repayments and amortisation, and the current fair value less any previous impairment loss, is transferred from equity to the surplus/(deficit).

In the following note disclosure, Departmental and Administered items are included together for presentation purposes only and these balances should not be compared.

D1.1 Categories of financial instruments

		Departmental		Administered	
		30 June 2018	30 June 2017	**30 June 2018**	30 June 2017
	Note ref	**$'000**	$'000	**$'000**	$'000
Financial Assets					
Loans and receivables					
Cash and cash equivalents					
OPA balance	H2	**-**	-	**1,730,174**	936,797
Special account cash held by Finance	F3.1	**15,244**	9,162	**-**	-
Operating cash balance		**1,580**	1,618	**858**	1,159
Special account cash held in OPA	F3.1	**755,470**	739,018	**-**	-
Trade receivables		**4,064**	74,299	**1,826**	721
Investment funds - loans and receivables	C2.2	**-**	-	**7,979,610**	6,501,484
State and Territory Government loans		**-**	-	**133,121**	139,752
Accrued revenue		**5,889**	11,770	**9,583**	2,213
Total loans and receivables		**782,247**	835,867	**9,855,172**	7,582,126
Held-to-maturity investments					
Government securities		**-**	-	**-**	1,472
Total held-to-maturity investments		**-**	-	**-**	1,472
Available-for-sale financial assets					
Commonwealth corporate entities		**-**	-	**904,868**	573,417
Total available-for-sale financial assets		**-**	-	**904,868**	573,417
Financial assets designated at FVPL					
Investment funds - financial assets at FVPL	C2.2	**-**	-	**21,844,193**	16,190,822
Total financial assets designated at FVPL		**-**	-	**21,844,193**	16,190,822
Total financial assets		**782,247**	835,867	**32,604,233**	24,347,837
Financial Liabilities					
Financial liabilities measured at amortised cost					
Trade creditors and accruals		**36,241**	49,771	**12,141**	12,418
Investment funds - financial liabilities	C2.2	**-**	-	**91,032**	99,915
Finance leases		**3,736**	6,475	**-**	-
Total financial liabilities measured at amortised cost		**39,977**	56,246	**103,173**	112,333
Financial liabilities designated at FVPL					
Investment funds - derivative liabilities	C2.2	**-**	-	**157,327**	13,405
Total financial liabilities designated at FVPL		**-**	-	**157,327**	13,405
Total financial liabilities		**39,977**	56,246	**260,500**	125,738

Key judgements and estimates

Loans to state and territory governments
Concessional loan balances receivable from states and territories are measured at amortised cost and no security is held for these. Repayments are based on a reducing balance method. The amortised cost differs from fair value which has been disclosed under Note D1.2.

Investments in Commonwealth corporate entities (CCEs)
CCEs are wholly owned by the Commonwealth and managed by Finance on behalf of the Commonwealth. CCEs are not controlled by Finance and have been reported as investments and measured at fair value.

The following are details of Finance's CCEs:

- CSC is a trustee and administrator of Commonwealth superannuation schemes. The value of CSC has been measured using the net assets (NET) reported in its financial statements. A change in the net assets would result in an equal change in reported fair value.

- Australian Naval Infrastructure (ANI) Pty Ltd has begun the redevelopment of the Osborne South Shipyard and is in the process of establishing its long term leasing/access arrangements for the critical infrastructure in its ownership. The value of ANI has been measured using the net assets (NET) reported in its financial statements. A change in the net assets would result in an equal change in reported fair value.

- ASC Pty Ltd (ASC) provides ongoing capability for the through life support of the Collins class submarine and is the shipbuilder for the Air Warfare Destroyer and Offshore Patrol Vessel programs. ASC has been measured using reporting date value of the future cash flows of the company sourced from the 2018-23 Corporate Plan and an extended forecast model out to 2027 based on information in the ASC internal valuation.

    - On 29 June 2018, the Government announced plans for the construction of anti-submarine warfare frigates (Future Frigate program – Hunter Class frigates). The frigates will be built by ASC Shipbuilding, which is currently wholly owned by the Commonwealth (through ASC Pty Ltd) and will become a subsidiary of BAE Systems during the construction phase. Details in relation to the transfer of ASC Shipbuilding to BAE Systems are currently being determined. Cash flows in relation to ASC Shipbuilding have been excluded from the valuation.

    - ASC's cash flows have been discounted using the weighted average cost of capital (WACC). The WACC is calculated based on a number of inputs derived from either professional judgement or observable historical market data of comparable entities. The impact of WACC changes is included as part of Market Risk analysis in Note D2.1.

D1.2 Fair value information by financial asset class

The following table sets out the fair value, valuation techniques and inputs used for Administered financial instruments.
The techniques used to value financial instruments have not changed during the year.

Financial instruments have been valued using inputs under the following fair value hierarchy:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that Finance can access at measurement date.
- Level 2: observable inputs that are derived from prices in active markets.
- Level 3: inputs that are not observable and involve significant judgement.

Fair value measurements at the end of the reporting period

	Level	Inputs used	Valuation technique	Administered 30 June 2018 $'000	Administered 30 June 2017 $'000
Financial assets					
State and Territory Government loans	2	N/A	Income approach	**215,893**	231,180
Investments in CCEs	3	NET	Cost approach	**597,405**	318,616
Investments in CCEs	3	WACC	Income approach	**307,463**	254,801
Investment funds - financial assets at FVPL					
Investment funds- other investments	1	N/A	Market approach	**1,248,694**	553,207
Investment funds- interest bearing securities	2	PI[1]	Market approach	**18,129,857**	14,195,737
Investment funds- derivative assets	2	N/A	Market approach	**32,971**	117,607
Investment funds - other investments	2	N/A	Market approach	**-**	2,875
Investment funds- interest bearing securities	3	Earnings multiple	Market approach	**154,124**	-
Investment funds- other investments	3	NET	Market approach	**2,274,729**	1,321,396
Total financial assets				**22,961,136**	16,995,419
Financial liabilities					
Investment funds - derivative liabilities	2	N/A	Market approach	**157,327**	13,405
Total financial liabilities				**157,327**	13,405

[1]Price Index (PI) values based on observable market data relating to prices, industry accepted pricing models and broker/dealer quotes

Movements of recurring level 3 financial assets

	Administered 30 June 2018 $'000	Administered 30 June 2017 $'000
Opening balance of investments in CCEs	**573,417**	400,454
Equity injections	**279,500**	95,000
Total gains/(losses) recognised in other comprehensive income	**51,951**	77,963
Closing balance of investments in CCEs	**904,868**	573,417
Opening balance of investment funds - financial assets at FVPL	**1,321,396**	697,575
Purchase	**1,274,101**	656,697
Sales	**(206,253)**	(30,379)
Total gains/(losses) recognised in net cost of services	**44,172**	(2,128)
Transfers into level 3	**(4,563)**	(369)
Closing balance of investment funds - financial assets at FVPL	**2,428,853**	1,321,396

D1.3 Net gains or losses on financial assets

	Note ref	Departmental 30 June 2018 $'000	Departmental 30 June 2017 $'000	Administered 30 June 2018 $'000	Administered 30 June 2017 $'000
Loans and receivables					
Interest revenue earned on:					
OPA deposits		-	-	15,215	14,877
Housing agreements		-	-	4,500	5,515
State and Territory Government loans		-	-	10,079	9,707
Other interest revenue		3	8	-	-
Impairment of financial assets		(66)	(4)	(1)	(13)
Net gains/(losses) on loans and receivables		(63)	4	29,793	30,086
Held-to-maturity investments					
Interest revenue earned on Government Securities		-	-	47	94
Net gain/(losses) on held-to-maturity investments		-	-	47	94
Available-for-sale financial assets					
Dividends		-	-	16,100	19,700
Investment funds - dividends	C2.1	-	-	36,716	13,228
Gain/(loss) recognised in equity	D1.2	-	-	51,951	77,963
Gains from sale of financial assets					
Sale proceeds		-	-	-	1
Net gains/(losses) from available-for-sale financial assets		-	-	104,767	110,892
Financial assets designated as FVPL					
Investment funds - foreign exchange losses	C2.1	-	-	(225,700)	(6,925)
Investment funds - interest on term deposits	C2.1	-	-	140,885	91,566
Investment funds - gains on financial investments	C2.1	-	-	763,532	439,306
Net gains/(losses) on financial assets designated as FVPL		-	-	678,717	523,947
Net gains/(losses) on financial assets		(63)	4	813,324	665,019

Policy and measurement

Foreign exchange gains/losses

All foreign currency transactions during the period are brought to account using the exchange rate in effect at the date of the transaction. Foreign currency items at reporting date are translated at the exchange rate existing at reporting date. Exchange differences are recognised in the surplus/(deficit) in the period in which they arise.

D2 : Managing financial risk

Finance is generally exposed to a low level of risk in relation to its financial instruments with the exception of the investment funds which are exposed to a moderate level of risk commensurate with the types of financial instruments held and the markets in which those instruments are traded. These risks are discussed as part of the investment funds (Note C2). Non-investment fund risks are discussed below.

D2.1 Market risk

Market risk refers to the risk that a change in market parameters will impact on assets held by Finance. Other than balances held by the investment funds, investments in CCEs and the OPA which are exposed to interest rate risk and foreign currency risk, Finance holds basic financial instruments that are not exposed to market risks. The following table discloses market risks in relation to the OPA and investments in CCEs. Disclosures in relation to the investment funds are included as part of Note C2.3.1.

Sensitivity analysis of interest rate risk exposure

			Effect on	
2018	**Risk variable**	**Change in risk variable**	**Surplus/ (deficit)**	**Equity**
		%	**$'000**	**$'000**
Overnight cash deposits with the RBA	**Deposit rate**	**+0.2%**	**2,435**	**-**
		-0.2%	**(2,435)**	**-**
Investments in CCEs	**Discount rate**	**+0.2%**	**-**	**1,907**
		-0.2%	**-**	**(1,874)**
2017		%	$'000	$'000
Overnight cash deposits with the RBA	Deposit rate	+0.3%	3,521	-
		-0.3%	(3,521)	-
Investments in CCEs	Discount rate	+0.3%	-	(2,313)
		-0.3%	-	2,374

D2.2 Liquidity risk

Liquidity risk is the risk that an entity will be unable to pay its debts when they fall due. As Finance is appropriation funded, the risk of Finance not meeting its obligations associated with financial liabilities is highly remote. Internal policies and procedures are also in place to ensure there are appropriate resources available to meet obligations. Finance's credit terms for goods and services are payment within 30 days. Disclosures in relation to the investment funds are included as part of Note C2.3.2.

D2.3 Credit risk

Credit risk is the risk that entities owing debts to Finance will not pay those debts as and when they fall due. Finance is exposed to a moderate level of credit risk in relation to the investment fund's assets; all other financial assets are considered to be low risk. Trade and other receivables (excluding State and Territory Government loans) have standard 30 days terms. Additional disclosures for the investment funds credit risk are included in Note C2.3.3.

Gross exposure to all credit risk and credit quality of financial assets

		Departmental		Administered	
	Note ref	**30 June 2018 $'000**	30 June 2017 $'000	**30 June 2018 $'000**	30 June 2017 $'000
Financial assets					
Not past due nor impaired					
Cash and cash equivalents		**772,294**	749,798	**1,731,032**	937,956
Trade receivables		**3,089**	47,265	**1,446**	182
Investment funds - loans and receivables	C2.2	**-**	-	**7,979,610**	6,501,484
Investment funds - financial assets at FVPL	C2.2	**-**	-	**21,844,193**	16,190,822
State and Territory Government loans		**-**	-	**133,121**	139,752
Accrued revenue		**5,889**	11,770	**9,583**	2,213
Government securities		**-**	-	**-**	1,472
Total not past due nor impaired		**781,272**	808,833	**31,698,985**	23,773,881
Past due or impaired					
Trade receivables		**975**	27,034	**380**	539
Total past due or impaired		**975**	27,034	**380**	539
Total financial assets		**782,247**	835,867	**31,699,365**	23,774,420
Ageing of financial instrument assets that were past due or impaired					
0 to 30 days		**236**	26,911	**117**	10
31 to 60 days		**185**	18	**21**	8
61 to 90 days		**64**	7	**19**	94
90+ days		**490**	98	**223**	427
Total past due but not impaired		**975**	27,034	**380**	539

D3 : Non-financial assets

Policy and measurement

Non-financial assets (excluding assets held for sale) are not expected to be sold or realised within the next 12 months.

Asset recognition threshold
Purchases of property, plant and equipment, and intangibles are recognised where they meet an individual asset recognition threshold of $5,000. All purchases under this threshold are expensed in the year of acquisition, other than when they form part of a group of similar items which are significant in total in which case they are recognised on a group basis.

Finance has a number of asset classes. The recognition and measurement policy for each is included below:

Asset class (includes work in progress)	Initial Recognition	Subsequent Recognition	Revaluation Frequency	Fair value measured at
Land	At cost.	Fair value.	Assessed annually by management to determine whether it is likely that the carrying amount is materially different from fair value. If likely, revaluations are conducted by independent valuers and revaluation adjustments are made on a class basis.	Market selling price or discounted cash flows.
Buildings				Market selling price, discounted cash flows or current replacement cost.
Leasehold improvements				Current replacement cost.
Infrastructure, plant and equipment				Market selling price or current replacement cost.
Investment property	At cost, except where acquired at nominal cost, then fair value.	Fair value.	Annually.	Market selling price or discounted cash flows.
Intangibles (including internally developed and externally acquired software)	At cost.	Cost less accumulated amortisation and accumulated impairment losses.	N/A	N/A

Revaluations
Revaluation adjustments are made on a class basis. For property, plant and equipment, revaluation increments are credited to equity under the heading of asset revaluation reserve except to the extent it reversed a previous revaluation decrement of the same asset class that was previously recognised in the surplus/deficit. Revaluation decrements for a class of assets are recognised directly in the surplus/deficit except to the extent that they reversed a previous revaluation increment for that class.

Gains or losses arising from changes in the fair value of investment properties are recognised in the surplus/deficit in the year in which they arise.

Any accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the asset is restated to the revalued amount.

Decontamination, restoration and decommissioning costs
Obligations relating to the dismantling, removal, remediation and restoration are recognised in the cost of property, plant and equipment where reliability estimated, with a corresponding provision for remediation costs.

Depreciation/amortisation
Depreciable assets are written down to their estimated residual values over their estimated useful lives to Finance using the straight line method of depreciation. Depreciation rates are based on the following useful lives:

Asset class	2018 & 2017 (no change)
Buildings on freehold land	3 to 100 years
Leasehold improvements	Lesser of useful life or lease term
Intangibles	3 to 7 years
Infrastructure, plant and equipment	1 to 45 years

This policy is reviewed at each reporting date. If a change is deemed necessary, these are made in the current and future reporting periods as appropriate.

Assets held for sale

Assets held for sale includes properties that have been fully prepared for sale, are being actively marketed at fair value and are likely to settle within the next 12 months. Also included are properties that are currently under offer or contract (contract issued or exchanged but not yet settled) as at the end of the reporting period.

D3.1 Property, infrastructure, plant and equipment and intangibles

	Departmental						
	Land $'000	**Buildings $'000**	**Leasehold improve-ments $'000**	**Invest-ment property $'000**	**Plant and equip-ment $'000**	**Intang-ible assets $'000**	**Total $'000**
As at 1 July 2017							
Gross book value	**387,641**	**589,011**	**28,336**	**847,703**	**30,867**	**148,236**	**2,031,794**
Accumulated depreciation, amortisation and impairment	**-**	**-**	**(1,596)**	**-**	**-**	**(53,849)**	**(55,445)**
Opening balance as at 1 July 2017	**387,641**	**589,011**	**26,740**	**847,703**	**30,867**	**94,387**	**1,976,349**
Additions							
Purchase or internally developed	**13,659**	**19,679**	**313**	**17,414**	**3,866**	**17,866**	**72,797**
Items recognised in equity							
Revaluations	**35,394**	**3,364**	**-**	**-**	**-**	**-**	**38,758**
Items recognised in NCOS							
Revaluations	**-**	**14,050**	**-**	**12,015**	**-**	**-**	**26,065**
Depreciation/amortisation expense	**-**	**(13,272)**	**(1,735)**	**-**	**(8,318)**	**(20,941)**	**(44,266)**
Transfers to assets held for sale	**(14,930)**	**(11,800)**	**-**	**-**	**-**	**-**	**(26,730)**
Disposals							
Transfers to agencies/restructuring	**(44,000)**	**(5,811)**	**-**	**-**	**-**	**-**	**(49,811)**
Write-offs	**-**	**-**	**(6)**	**-**	**-**	**(2,061)**	**(2,067)**
Reclassification	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Other disposals	**(1,750)**	**-**	**-**	**(93,850)**	**-**	**-**	**(95,600)**
Closing balance as at 30 June 2018	**376,014**	**595,221**	**25,312**	**783,282**	**26,415**	**89,251**	**1,895,495**
Total as at 30 June 2018 represented by							
Gross book value							
Fair value (gross)	**376,014**	**519,256**	**28,238**	**777,104**	**33,850**	**-**	**1,734,462**
Internally developed software	**-**	**-**	**-**	**-**	**-**	**137,778**	**137,778**
Purchased software	**-**	**-**	**-**	**-**	**-**	**13,624**	**13,624**
Work in progress - at fair value	**-**	**75,965**	**76**	**6,178**	**871**	**-**	**83,090**
Work in progress - at cost	**-**	**-**	**-**	**-**	**-**	**12,103**	**12,103**
Accumulated depreciation, amortisation and impairment	**-**	**-**	**(3,002)**	**-**	**(8,306)**	**(74,254)**	**(85,562)**
Total as at 30 June 2018	**376,014**	**595,221**	**25,312**	**783,282**	**26,415**	**89,251**	**1,895,495**

Further information

Domestic property portfolio

Finance provides policy advice, guidance and support on managing Commonwealth property, land and public works across the government; and managing specified major capital works projects and the government's non-Defence property portfolio within Australia.

The government's non-defence domestic property portfolio currently has approximately 90 Commonwealth-owned properties across Australia. These include office buildings, law courts, special purpose facilities, heritage assets, vacant land and contaminated sites that have been classified as either investment properties, land, buildings, or assets held for sale.

Other assets

Other assets include leasehold improvements, office equipment, information technology and finance lease assets in relation to the electronic work environment.

	Administered				
	Leasehold improve-ments $'000	**Infrastructure $'000**	**Plant and equipment $'000**	**Intangible assets $'000**	**Total $'000**
As at 1 July 2017					
Gross book value	**25,011**	**69,997**	**4,157**	**3,239**	**102,404**
Accumulated depreciation, amortisation and impairment	**(122)**	**-**	**-**	**(2,168)**	**(2,290)**
Opening balance as at 1 July 2017	**24,889**	**69,997**	**4,157**	**1,071**	**100,114**
Additions					
By purchase	**12,929**	**1,224**	**3,257**	**157**	**17,567**
Items recognised in equity					
Revaluations	**-**	**727**	**2,070**	**-**	**2,797**
Items recognised in the surplus/(deficit)					
Depreciation/amortisation expense	**(11,703)**	**(2,232)**	**(2,701)**	**(560)**	**(17,196)**
Disposals					
Write-offs	**(90)**	**-**	**(128)**	**-**	**(218)**
Closing balance as at 30 June 2018	**26,025**	**69,716**	**6,655**	**668**	**103,064**
Total as at 30 June 2018 represented by					
Gross Book Value					
Fair value (gross)	**39,434**	**69,716**	**7,759**	**-**	**116,909**
Internally developed software	**-**	**-**	**-**	**1,173**	**1,173**
Purchased software	**-**	**-**	**-**	**276**	**276**
Work in progress - at fair value	**1,818**	**-**	**1,787**	**-**	**3,605**
Work in progress - at cost	**-**	**-**	**-**	**-**	**-**
Accumulated depreciation, amortisation and impairment	**(15,227)**	**-**	**(2,891)**	**(781)**	**(18,899)**
Total as at 30 June 2018	**26,025**	**69,716**	**6,655**	**668**	**103,064**

Further information

Non-financial assets include the Intra Government Communication Network (ICON), leasehold improvements and IT assets for electoral and state offices, and other information technology assets to support Administered outcomes.

D3.2 Fair value information by non-financial asset class

Key judgements and estimates

Where possible, assets are valued based upon observable inputs to the extent it is available. Where this information is not available, valuation techniques rely on unobservable inputs.

Independent valuations are obtained annually for land, buildings and investment properties. These valuations include calculations of estimated market cash flows which are adjusted to take into account physical, economic and external factors such as sale prices of comparable assets, replacement cost, expected useful life and adjustments for obsolescence. For investment properties, judgements include income and expenditure, as well as average vacancy periods and costs of establishing a new tenant, as leases become due for renewal and properties become vacant.

Within the property portfolio, there are a small number of properties where the highest and best use differs from the current use, being:

- 7 vacant blocks which have a highest and best use of 'office buildings';
- 1 vacant block which has a highest and best use of 'rural residential';
- 1 property with an unusable building which has a highest and best use of 'community use'; and
- 1 property with an unusable building which has a highest and best use of ‘conservation’.

While the fair values for these properties has been measured in the financial statements using the highest and best use for each, they are not being utilised at their highest and best use as Finance is not in the business of development.

Leasehold improvements, and plant and equipment is subject to a formal independent valuation at least once every three years dependent upon an annual risk assessment. In years where a formal valuation is not undertaken, assets are subject to a desktop review. Leasehold improvements for One Canberra Avenue were valued on acquisition in 2016. An independent valuation in relation to all other leasehold improvements and plant and equipment was undertaken as at 30 June 2017.

Finance reviews all reports received from independent valuers to ensure valuations align with its own assumptions and understanding of the respective assets and their circumstances.

Fair value measurements

Finance only holds non-financial assets in the following two levels of the fair value hierarchy:

- Level 2: observable inputs (other than quoted prices in active markets) are used to calculate the fair value of the asset; and
- Level 3: inputs used to calculate the fair value are not observable.

The following tables set out (by asset class) the valuation technique, inputs used, and the level of the fair value hierarchy per *AASB 13 Fair Value Measurement*.

Departmental

Technique / inputs used / level	Land $'000	Buildings $'000	Leasehold improve-ments $'000	Invest-ment property $'000	Plant and equip-ment $'000	Assets held for sale $'000	Total $'000
Market Approach / AMT / 2	**135,910**	**18**	**-**	**70,104**	**13,049**	**12,254**	**231,335**
Cost Approach / RCN; CEB / 3	**-**	**-**	**25,312**	**-**	**13,366**	**-**	**38,678**
Cost Approach / RCN / 2	**-**	**297,404**	**-**	**-**	**-**	**-**	**297,404**
Income Approach / AMT / 2	**240,104**	**297,799**	**-**	**713,178**	**-**	**15,900**	**1,266,981**
Total assets at fair value 30 June 2018	**376,014**	**595,221**	**25,312**	**783,282**	**26,415**	**28,154**	**1,834,398**
Market Approach / AMT / 2	174,997	6,105	-	63,590	13,490	4,317	262,499
Cost Approach / RCN; CEB / 3	-	-	26,740	-	17,377	-	44,117
Cost Approach / RCN / 2	-	284,706	-	-	-	-	284,706
Income Approach / AMT / 2	212,644	298,200	-	784,113	-	-	1,294,957
Total assets at fair value 30 June 2017	387,641	589,011	26,740	847,703	30,867	4,317	1,886,279

	Administered			
Technique / inputs used / level	**Leasehold improvements $'000**	**Infrastructure $'000**	**Plant and equipment $'000**	**Total $'000**
Cost Approach / RCN;CEB / 3	**26,025**	**69,716**	**-**	**95,741**
Market Approach / AMT / 2	**-**	**-**	**3,713**	**3,713**
Cost Approach / AMT;CEB / 3	**-**	**-**	**2,942**	**2,942**
Total assets at fair value 30 June 2018	**26,025**	**69,716**	**6,655**	**102,396**
Cost Approach / RCN;CEB / 3	24,889	69,997	-	94,886
Market Approach / AMT / 2	-	-	2,575	2,575
Cost Approach / AMT;CEB / 3	-	-	1,582	1,582
Total assets at fair value 30 June 2017	24,889	69,997	4,157	99,043

Inputs used

Replacement Cost of New Assets (RCN): the amount a market participant would pay to acquire or construct a new substitute asset of comparable utility.

Consumed Economic Benefits (CEB): obsolescence of assets, physical deterioration, functional or technical obsolescence and conditions of the economic environment specific to the asset.

Adjusted Market Transactions (AMT): market transactions of comparable assets, adjusted to reflect differences in price sensitive characteristics.

Recurring level 3 fair value measurements

There has been $0.9 million transferred from level 2 to level 3 for Plant & Equipment and Leasehold improvements.

There has been $9.1 million transferred from level 2 to level 3 for Plant & Equipment and Leasehold improvements.

D4 : Other provisions

Policy and measurement

Finance recognises a provision when it has a legal or constructive obligation to make a payment, it is probable that payment will be made and the amount to be paid can be reliably measured.

In the following note disclosure, Departmental and Administered items are included together for presentation purposes only and these balances should not be compared.

	Departmental		Administered	
	30 June 2018 $'000	30 June 2017 $'000	**30 June 2018 $'000**	30 June 2017 $'000
Property				
Excess lease space	**-**	203	**496**	1,513
Provision for remediation costs	**20,648**	8,612	**6,310**	5,509
Other				
Act of Grace	**-**	-	**9,015**	9,825
Same Sex Relationships Act	**-**	-	**1,529**	1,467
Total other provisions	**20,648**	8,815	**17,350**	18,314
Movements of other provisions				
Opening balance	**8,815**	24,774	**18,314**	18,173
Additional provisions made	**13,773**	4,291	**1,916**	3,169
Amounts used	**(1,473)**	(20,250)	**(2,457)**	(2,832)
Amounts reversed	**(467)**	-	**(423)**	(196)
Closing balance	**20,648**	8,815	**17,350**	18,314

Further information

Remediation
Finance currently has agreements for the leasing of premises which have provisions requiring Finance to restore the premises to their original condition at the conclusion of the lease.

The domestic property portfolio managed by Finance has a small number of properties with potential remediation issues that are currently the subject of further investigation. A provision has been raised in relation to remediation of three properties.

Excess lease space
Finance has reviewed the leasing of all premises for surplus space and has recognised a provision in relation to five Administered premises. Finance has made a provision to reflect the present value of this surplus space.

Act of Grace

The Act of Grace mechanism is a discretionary power found in section 65 of the PGPA Act, which allows payments to be made if it is appropriate and a decision maker considers there are special circumstances. In most cases these relate to pension payments to spouses of former members of the Commonwealth defined benefit superannuation schemes.

Same Sex Relationships Act

The *Same Sex Relationships (Equal Treatment in Commonwealth Laws – General Reform) Act 2008* removes discrimination against same-sex couples and their dependent children from a wide range of Commonwealth laws and programs. These relate to pension payments to partners of former members of the Commonwealth defined benefit superannuation schemes.

E. Our People

This section describes the employment and post-employment benefits provided to our people and our relationships with other key people.

Finance provides salary and related benefits to:

- staff employed by current and former Members of Parliament under the *Members of Parliament (Staff) Act 1984* (MOP(S) Act); and
- Parliamentarians' under the *Parliamentary Business Resources Act 2017* (PBR Act).

Finance provides post-employment benefits to former Prime Ministers under the PBR Act.

Superannuation payments made to former Commonwealth employees which are also administered by Finance on behalf of the Government are not included in the tables below. These are disclosed in Note C3: Superannuation.

In the following note disclosures, Departmental and Administered items are included together for presentation purposes only and these balances should not be compared.

E1 : Employee benefits

Policy and measurement

Liabilities for short term employee benefits and termination benefits expected within twelve months of the end of the reporting period are measured at their nominal amounts.

Other long term employee benefits are measured as net total of the present value of the defined benefit obligation at the end of the reporting period.

Leave

The liability for employee benefits includes provision for annual leave and long service leave.

The liabilities are calculated on the basis of employees' remuneration at the estimated salary rates that will be applied at the time the leave is taken, including Finance's superannuation contribution rates to the extent that the leave is likely to be taken during service rather than paid out at termination.

Separation and redundancy

Provision is made for separation and redundancy benefit payments. Finance recognises a provision for restructuring when it has a detailed formal plan for the restructuring and has informed those employees affected that it will carry out the restructuring.

Superannuation

Finance's staff are members of the Commonwealth Superannuation Scheme (CSS), the Public Sector Superannuation Scheme (PSS), the PSS accumulation plan (PSSap) or other superannuation funds held outside the Australian Government.

The CSS and PSS are defined benefit schemes of the Australian Government. The PSSap is a defined contribution scheme. The liability for defined benefits is recognised in Finance's administered statements and reported in Note C3: Superannuation.

Finance makes employer contributions to the employees' defined benefit superannuation scheme at rates determined by an actuary to be sufficient to meet the current cost to the Government. Finance accounts for the contributions as if they were contributions to defined contribution plans.

Key judgements and estimates

Leave

The liability for long service leave has been determined by reference to standard parameters issued by the Department of Finance. The estimate of the present value of the liability takes into account attrition rates and pay increases through promotion and inflation.

Leave liabilities for employees engaged under the MOP(S) Act are calculated with reference to an actuarial assessment. The estimate of the present value of the liability takes into account attrition rates and pay increases through promotion and inflation.

Separation and redundancy

A provision for severance payments is made for employees engaged under the MOP(S) Act in the event their employment is terminated, other than through resignation. These are measured as the defined benefit obligation adjusted for future salary increases discounted back to present value using yields on Government bonds.

Post-employment benefits

Provision is made for certain entitlements for former Prime Ministers, including staff, office and vehicle costs. The liability is calculated with reference to an actuarial assessment for each former Prime Minister individually where future recurrent expenditure assumptions are set having regard to historical data adjusted for inflation.

E1.1 Employee benefit expenses

	Departmental		Administered	
	30 June 2018 $'000	30 June 2017 $'000	**30 June 2018 $'000**	30 June 2017 $'000
Wages and salaries[1]	**121,933**	127,734	**223,568**	187,882
Superannuation expense				
Defined contribution plans	**10,848**	13,991	**33,569**	30,247
Defined benefit plans	**12,575**	10,714	**5,677**	7,562
Leave and other entitlements	**15,580**	12,538	**20,021**	17,870
Increase (decrease) in post-employment benefits liability	**-**	-	**(3,934)**	(75,596)
Separations and redundancies	**7,312**	2,952	**5,315**	10,296
Other employee expenses	**229**	689	**14,520**	16,838
Total employee expenses	**168,477**	168,618	**298,736**	195,099

[1] Includes salaries and related benefits for Parliamentarians' from 1 January 2018. Prior to this payments were administered by the Australian Public Service Commissioner (APSC).

E1.2 Employee provisions

	Departmental		Administered	
	30 June 2018 $'000	30 June 2017 $'000	**30 June 2018 $'000**	30 June 2017 $'000
Employee provisions				
Leave	**56,468**	58,403	**41,744**	36,185
Separation and redundancies	**6,011**	-	**23,475**	24,070
Post-employment benefits	**-**	-	**170,646**	176,754
Total employee provisions	**62,479**	58,403	**235,865**	237,009

E2 : Key management personnel remuneration

Key management personnel (KMP) are those persons having authority and responsibility for planning, directing and controlling the activities of Finance. Finance has determined the KMP to be the Finance Minister, the Assistant Minister for Finance and the members of the Finance Executive Board which includes the Secretary, Deputy Secretaries and two SES on a rotational basis. KMP remuneration is reported in the table below.

	Departmental	
	30 June 2018 $	30 June 2017 $
Short-term employee benefits		
Salary	**2,200,814**	2,392,122
Executive vehicle scheme	**163,016**	197,523
Other benefits	**7,193**	7,520
Total short-term employee benefits	**2,371,023**	2,597,165
Post-employment benefits		
Superannuation	**424,803**	427,551
Total post-employment benefits	**424,803**	427,551
Other long-term benefits		
Annual leave	**299,350**	266,823
Long service leave	**104,303**	225,281
Total other long-term benefits	**403,653**	492,104
Total termination benefits	**-**	-
Total key management personnel remuneration[1]	**3,199,479**	3,516,820
Number of key management personnel included in the table above[2]	**10**	10

[1] The above KMP remuneration excludes the remuneration and other benefits of the Finance Minister and the Assistant Minister for Finance whose remuneration and other benefits are set by the Remuneration Tribunal and are not paid by Finance.

[2] Represents the total number of persons who held a KMP position during the year, or part thereof.

E3 : Related parties

Finance is an Australian Government controlled entity. Related parties to Finance are KMP including the Minister for Finance, the Assistant Minister for Finance, the Finance Executive Board and other Australian Government entities. KMP remuneration for members of the Executive Board is disclosed in Note E2.

Transactions with related parties

Finance undertakes a number of functions on behalf of the Australian government, as detailed in the financial statements. In performing these functions, Finance transacts with all other Australian Government controlled entities for normal day-to-day business operations provided under normal terms and conditions or on a cost recovery basis. This includes the payment of workers compensation and insurance premiums and collection of rental income. They are not considered significant individually to warrant separate disclosure as related party transactions.

F. Funding

Amounts appropriated for Departmental appropriations for the year (adjusted for any formal additions and reductions) are recognised as revenue from Government when Finance gains control of the appropriation. Appropriations receivable is recognised at the nominal amounts.

Administered appropriations are not recognised as revenue in the Schedule of Comprehensive Income. They are included in the Administered Reconciliation Schedule once they are recognised, which is the date the amounts are drawn down to Finance's bank account for payment against the appropriation for annual and special appropriations, or the date stated in the determination for other Administered amounts.

In the following note disclosure, Departmental and Administered items are included together for presentation purposes only and these balances should not be compared.

F1 : Annual appropriations

F1.1 Annual appropriations ('recoverable GST exclusive')

	Departmental		Administered	
	30 June 2018 $'000	30 June 2017 $'000	**30 June 2018 $'000**	30 June 2017 $'000
Ordinary annual services				
Annual Appropriation				
Ordinary annual services	**262,782**	283,961	**273,579**	304,384
Capital budget	**6,480**	-	**4,983**	4,919
Section 74 receipts of PGPA Act	**71,726**	56,305	**224**	2,952
Section 75 transfers of PGPA Act[1]	**(205)**	614	**-**	(9,221)
Total	**340,783**	340,880	**278,786**	303,034
Appropriation applied[2]	**(334,338)**	(351,978)	**(266,148)**	(298,468)
Variance	**6,446**	(11,098)	**12,638**	4,566
Other services				
Annual appropriation				
Equity injection	**74,853**	69,808	**-**	-
Assets and liabilities	**-**	-	**512,546**	1,890
Total	**74,853**	69,808	**512,546**	1,890
Appropriation applied[2]	**(27,991)**	(127,968)	**(292,338)**	(1,779)
Variance	**46,862**	(58,160)	**220,208**	111

[1] An amount of $0.2 million was transferred to PM&C under a section 75 determination following an Administrative Arrangements Order on 30 November 2017. For further information, refer to the Restructuring Note at C4.

[2] Appropriation applied includes cash payments made from current and prior year appropriations.

The following entities spent money from the CRF on behalf of Finance: CSC and the Department of Parliamentary Services (DPS). The money spent has been included in the table above.

Departmental and Administered capital budgets are appropriated through Appropriation Acts (No.1, 3, 5). They form part of ordinary annual services, and are not separately identified in the Appropriation Acts.

Notes to and forming part of the financial statements | F. Funding

F1.2 Unspent annual appropriations ('recoverable GST exclusive')

	Departmental		Administered	
	30 June 2018 $'000	30 June 2017 $'000	**30 June 2018 $'000**	30 June 2017 $'000
Appropriation Act (No. 2) 2012-13	**-**	90	**-**	847
Appropriation Act (No. 2) 2013-14	**-**	1,246	**-**	8,153
Appropriation Act (No. 2) 2014-15	**-**	-	**-**	16
Appropriation Act (No. 2) 2015-16	**-**	7,260	**218**	218
Supply Act (No. 2) 2016-17	**17,190**	20,207	**-**	697
Appropriation Act (No. 2) 2016-17	**32,254**	40,969	**-**	975
Appropriation Act (No.2) 2017-18	**64,202**	n/a	**221,956**	n/a
Appropriation Act (No. 4) 2012-13	**-**	-	**-**	5,000
Appropriation Act (No. 4) 2015-16	**-**	2,226	**153**	153
Appropriation Act (No. 4) 2016-17	**-**	-	**-**	218
Appropriation Act (No. 4) 2017-18	**3,878**	n/a	**142**	n/a
Appropriation Act (No. 1) 2013-14	**-**	7,064	**-**	480
Appropriation Act (No. 1) 2014-15	**-**	-	**-**	174
Appropriation Act (No. 1) 2015-16[1]	**30**	3,168	**105**	105
Appropriation Act (No. 1) 2016-17[1]	**16,591**	100,006	**3,936**	24,653
Appropriation Act (No. 1) 2017-18[2]	**79,263**	n/a	**39,566**	n/a
Appropriation Act (No. 3) 2014-15	**-**	-	**-**	2,720
Appropriation Act (No. 3) 2015-16[1]	**-**	-	**1,847**	1,847
Appropriation Act (No. 3) 2016-17	**2,955**	2,955	**-**	11,194
Appropriation Act (No. 3) 2017-18	**4,107**	n/a	**-**	n/a
Appropriation Act (No. 1) 2014-15 - Capital	**-**	-	**-**	3,166
Appropriation Act (No. 1) 2015-16 - Capital[1]	**-**	-	**3,189**	3,189
Appropriation Act (No.1) 2016-17 - Capital	**474**	474	**428**	2,869
Supply Act (No.1) 2016-17 - Capital	**474**	474	**-**	1,602
Appropriation Act (No.1) 2017-18 - Capital	**2,689**	n/a	**4,983**	n/a
Total unspent appropriations	**224,107**	186,139	**276,523**	68,276

Reconciliation to appropriations receivable (other departmental undrawn)

The above unspent appropriations balance includes quarantined amounts and amounts reported elsewhere in the financial statements which are not considered to be available to Finance. In order to reconcile to the closing appropriations receivable balance, unspent amounts considered unavailable to Finance have been removed below:

	Departmental	
	30 June 2018 $'000	30 June 2017 $'000
Total unspent appropriations	**224,107**	186,139
Adjustments:		
Moorebank reallocation and terminated superannuation reforms measure	**-**	(405)
Strategic Reviews hand back	**-**	(802)
Cash at bank - 30 June	**(1,690)**	(1,560)
Expected GST refund outstanding at year end	**(1,283)**	(1,588)
Recorded against special accounts receivable in ledger	**(1,591)**	(3,675)
Recorded against capital receivable for special account in ledger	**(62,589)**	(58,891)
Transfer of function to PM&C (withheld under s. 51 of the PGPA Act)	**-**	(6,262)
Supplementation	**-**	40,000
Closing appropriations receivable balance	**156,954**	152,956

Other quarantined amounts and adjustments

These balances meet the definition of a receivable and therefore do not need to be adjusted out of unspent appropriations to reconcile to appropriations receivable.

[1] The balance remaining in these appropriations have been withheld under s.51 of the PGPA Act as they are 2015-16 and 2016-17 Administered appropriations that are no longer required (the former s.11 process).

[2] The balance includes cash at bank as at 30 June 2018 of $1.7 million plus expected GST refund of $1.3 million (2017: cash at bank $1.1 million, GST refund $1.6 million).

F2 : Special appropriations

F2.1 Special appropriations ('recoverable GST exclusive')

	Appropriations applied	
	30 June 2018 $'000	30 June 2017 $'000
Administered		
Commonwealth of Australia Constitution Act s.66 (Ministers of State Act 1952 s.5)	**(5,032)**	(5,016)
Federal Circuit Court of Australia Act 1999	**(456)**	(616)
Governance of Australian Government Superannuation Schemes Act 2011	**(470)**	(1,208)
Governor-General Act 1974	**(1,549)**	(1,561)
Judges' Pensions Act 1968	**(50,216)**	(47,101)
Medibank Private Sale Act 2006	**(55)**	(474)
Parliamentary Business Resources Act 2017	**(94,497)**	-
Parliamentary Contributory Superannuation Act 1948	**(42,409)**	(42,665)
Parliamentary Entitlements Act 1990	**(91,513)**	(162,243)
Parliamentary Retirement Travel Act 2002 formerly *Members of Parliament (Life Gold Pass) Act 2002*	**(240)**	(564)
Parliamentary Superannuation Act 2004	**(7,111)**	(6,932)
Public Governance, Performance and Accountability Act 2013 (PGPA Act)	**(356)**	(109)
Same-Sex Relationships (Equal Treatment in Commonwealth Laws – Superannuation) Act 2008	**(61)**	(60)
Superannuation Act 1922	**(74,160)**	(81,985)
Superannuation Act 1976	**(4,348,600)**	(4,291,400)
Superannuation Act 1990	**(2,057,933)**	(1,936,684)
Total special appropriations applied[1]	**(6,774,658)**	(6,578,618)

[1] The difference between 'total special appropriations applied' and the special appropriations reported in the Administered Reconciliation Schedule represents superannuation payments made that are yet to be reimbursed by entities who adopt a reimbursement basis to the Australian Government.

Superannuation Act 1976 and *Superannuation Act 1990*: Payments include amounts that are not an additional cost to the Australian Government and are funded from a return of superannuation benefit funded component associated with retirements of scheme members and reimbursements from the emerging cost entities.

Governor-General Act 1974: Administered by Finance and PM&C.

Same-Sex Relationships (Equal Treatment in Commonwealth Laws – Superannuation) Act 2008 and Federal Circuit Court of Australia Act 1999: Administered by Finance and the Attorney General's Department.

Commonwealth of Australia Constitution Act s.66 (Minister of State Act 1952 s.5): For the 2017-18 reporting period this appropriation was limited to $5.1 million, the money spent has been included in the table above.

CSC drew from the special appropriation authorised by the *Superannuation Act 1922, the Superannuation Act 1976, the Superannuation Act 1990, the Governance of Australian Government Superannuation Schemes Act 2011,* PGPA Act, s.77 and the *Same-Sex Relationships (Equal Treatment in Commonwealth Laws - Superannuation) Act 2008.* The money spent has been included in the table above.

The Department of the House of Representatives and the Department of the Senate drew from the special appropriation authorised by *the Parliamentary Superannuation Act 2004* and *Commonwealth of Australia Constitution Act* s.66 (*Ministers of State Act 1952*). The money spent has been included in the table above.

The Attorney-General's Department, the Department of Defence, the Department of Foreign Affairs and Trade, the Department of Parliamentary Services, the Department of the House of Representatives and the

Department of the Senate drew from the special appropriation authorised by the *Parliamentary Entitlements Act 1990*. From 1 January 2018 the *Parliamentary Entitlements Act 1990* was repealed and replaced by the *Parliamentary Business Resources Act 2017* (PBR Act). The same entities have access to the PBR Act and the money spent has been included in the table above.

The Fair Work Commission drew from the special appropriation authorised by the *Judges Pension Act 1968*. The money spent has been included in the table above.

Finance has the following special appropriations that were not drawn upon in the current or prior year: *ACT Government Loan Act 2014, AICD Sale Act 1997, Airports (Transitional) Act 1996, Lands Acquisition Act 1989, Loans Securities Act 1919, Moomba-Sydney Pipeline System Sale Act 1994, Parliamentary Retiring Allowances (Increases) Act 1967, Parliamentary Retiring Allowances (Increases) Act 1971, Public Accounts and Audit Committee Act 1951, Public Governance, Performance and Accountability (Consequential and Transitional Provisions) Act 2014, Public Works Committee Act 1969, Superannuation Legislation (Consequential Amendments and Transitional Provisions) Act 2011, Transferred Officers' Allowances Act 1948.*

No investments were made under s.58 of PGPA Act however investments were made for the investment funds (under the *Nation-Building Funds Act 2008* s.32 & s.151), the MRFF (under the *Medical Research Future Fund Act 2015* s.37) and the DCAF (under the *DisabilityCare Australia Fund Act 2013* s.27). Please refer to note C2 for further information.

F2.2 Disclosure by agent in relation to annual and special appropriations ('recoverable GST exclusive')

The following table discloses appropriations Finance drew on behalf of other agencies:

		Appropriations applied	
		30 June 2018	30 June 2017
	Relationship	**$'000**	$'000
Attorney-General's Department			
Total receipts	Solicitors-General pension payments	**451**	441
Total payments		**(451)**	(441)

F2.3 Compliance with statutory conditions for payments from the consolidated revenue fund

Section 83 of the Constitution provides that no amount may be paid out of the CRF except under an appropriation made by law. Finance in its central agency role provided information to all agencies in 2011 regarding the need for specific risk assessments in relation to section 83. It is impossible to fully remove the potential for section 83 breaches for all payments. In the vast majority of cases Finance relies on information provided by its clients to pay appropriate entitlements.

No breaches were identified in 2017-18.

F3 : Special accounts

A special account is an appropriation mechanism that notionally sets aside an amount within the CRF to be expended for specific purposes. The type of appropriation provided by a special account is a special appropriation. The appropriation mechanism remains available until the special account is abolished. The amount of appropriation that may be drawn from the CRF, via a special account, is limited to the balance of the particular special account.

Finance has been appropriated under the PGPA Act, s.78 (Departmental) and s.80 (Administered) for expenditure up to the balance of each of the following special accounts.

F3.1 Departmental special accounts

	Comcover 30 June 2018 $'000	**Property 30 June 2018 $'000**	**BSSA 30 June 2018 $'000**	**CPCSA 30 June 2018 $'000**	**Total 30 June 2018 $'000**
Opening cash held by Finance	**1,914**	**2,367**	**-**	**4,881**	**9,162**
Opening cash in OPA	**494,359**	**122,238**	**-**	**122,421**	**739,018**
Opening capital appropriation receivable[1]	**-**	**58,891**	**-**	**-**	**58,891**
Balance brought forward	**496,273**	**183,496**	**-**	**127,302**	**807,071**
Appropriations credited	**8,004**	**81,522**	**-**	**1,201**	**90,727**
Other receipts	**142,755**	**209,251**	**-**	**23,008**	**375,014**
Payments made	**(166,565)**	**(158,326)**	**-**	**(114,618)**	**(439,509)**
Balance carried forward	**480,467**	**315,943**	**-**	**36,893**	**833,303**
Balance represented by					
Cash held by Finance	**1,526**	**13,697**	**-**	**21**	**15,244**
Cash held in OPA	**478,941**	**239,657**	**-**	**36,872**	**755,470**
Capital appropriation receivable[1]	**-**	**62,589**	**-**	**-**	**62,589**
Special account balance	**480,467**	**315,943**	**-**	**36,893**	**833,303**

	Comcover 30 June 2017 $'000	Property 30 June 2017 $'000	BSSA 30 June 2017 $'000	CPCSA 30 June 2017 $'000	Total 30 June 2017 $'000
Opening cash held by Finance	1,478	198	-	412	2,088
Opening cash in OPA	433,065	156,676	5,856	48,315	643,912
Opening capital appropriation receivable[1]	-	82,420	-	-	82,420
Balance brought forward	434,543	239,294	5,856	48,727	728,420
Appropriations credited	9,067	123,375	-	4,151	136,593
Other receipts	143,758	93,141	-	241,756	478,655
Payments made	(91,095)	(272,314)	(5,856)	(167,332)	(536,597)
Balance carried forward	496,273	183,496	-	127,302	807,071
Balance represented by					
Cash held by Finance	1,914	2,367	-	4,881	9,162
Cash held in OPA	494,359	122,238	-	122,421	739,018
Capital appropriation receivable[1]	-	58,891	-	-	58,891
Special account balance	496,273	183,496	-	127,302	807,071

[1] These amounts have been specifically appropriated for the purposes of the Property Special Account but remain undrawn against Appropriation Acts 2 and 4.

Comcover Special Account
Establishing Instrument: *Financial Management and Accountability Determination 2009/05 — Comcover Special Account Establishment 2009*. Purpose: For receipts and expenditure relating to the promotion of risk management to General Government Sector entities; to administer the Commonwealth's general insurance fund; and to make payments in respect of any uninsured superannuation liability claims against an insured Commonwealth entity. This account is non-interest bearing. The special account determination sunsets on 1 April 2019.

Property Special Account 2014
Establishing Instrument: *PGPA Act (Property Special Account 2014 – Establishment) Determination 04*. Purpose: Facilitates the management of the Commonwealth's non-Defence domestic property portfolio. This account is non-interest bearing. The special account determination sunsets on 1 April 2025.

Business Services Special Account (BSSA)
Establishing Instrument: *Financial Management and Accountability Determination 2006/64 — Business Services Special Account Establishment 2006*. Purpose: For expenditure relating to sentencing and disposing of records associated with the former Department of Administrative Services (DAS), managing and settling any personal injury and other legal claims arising from activities associated with the former DAS, and to conclude any other activity arising from the former DAS. This account is non-interest bearing. The special account ceased on 1 April 2017.

Coordinated Procurement Contracting Special Account (CPCSA)
Establishing Instrument: *Financial Management and Accountability Determination 2008/08 — Coordinated Procurement Contracting Special Account Establishment 2008*. Purpose: For expenditure relating to the Whole of Australian Government (WoAG) contract for providing fleet management and leasing services, centralised government advertising activities, and other co-coordinated procurement contracts for the benefit of government entities. The account is non-interest bearing. The special account determination sunsets on 1 October 2018.

F3.2 Administered special accounts

	BAF 30 June 2018 $'000	**EIF 30 June 2018 $'000**	**DCAF 30 June 2018 $'000**	**MRFF 30 June 2018 $'000**	**Total 30 June 2018 $'000**
Balance brought forward	**-**	**-**	**-**	**-**	**-**
Increase					
Contribution from Government	**-**	**-**	**4,195,461**	**2,242,200**	**6,437,661**
Investment realised	**4,045,965**	**4,477,315**	**16,168,876**	**9,019,804**	**33,711,960**
Other receipts	**78,300**	**79,414**	**203,245**	**137,480**	**498,439**
Total increase	**4,124,265**	**4,556,729**	**20,567,582**	**11,399,484**	**40,648,060**
Decrease					
Purchase of investment	**(4,120,536)**	**(4,552,665)**	**(20,431,354)**	**(11,388,410)**	**(40,492,965)**
Other payments	**(3,729)**	**(4,064)**	**(136,228)**	**(11,074)**	**(155,095)**
Total decrease	**(4,124,265)**	**(4,556,729)**	**(20,567,582)**	**(11,399,484)**	**(40,648,060)**
Balance carried forward	**-**	**-**	**-**	**-**	**-**

	BAF 30 June 2017 $'000	EIF 30 June 2017 $'000	DCAF 30 June 2017 $'000	MRFF 30 June 2017 $'000	Total 30 June 2017 $'000
Balance brought forward	-	-	-	-	-
Increase					
Contribution from Government	-	-	4,164,314	1,277,358	5,441,672
Investment realised	3,149,128	4,175,785	7,697,048	5,584,742	20,606,703
Other receipts	120,755	142,409	217,805	176,708	657,677
Total increase	3,269,883	4,318,194	12,079,167	7,038,808	26,706,052
Decrease					
Purchase of investment	(3,266,263)	(4,291,746)	(12,073,738)	(6,968,436)	(26,600,183)
Other payments	(3,620)	(26,448)	(5,429)	(70,372)	(105,869)
Total decrease	(3,269,883)	(4,318,194)	(12,079,167)	(7,038,808)	(26,706,052)
Balance carried forward	-	-	-	-	-

Building Australia Fund (BAF) Special Account
Establishing Instrument: *Nation-building Funds Act 2008*, s.13. Purpose: For making payments in relation to transport infrastructure, communications infrastructure (including the National Broadband Network), energy infrastructure and water infrastructure. The balance of the special account is invested by the Future Fund Board of Guardians. The Future Fund Board of Guardians may invest amounts standing to the credit of the special account in financial assets, although the special account itself is non-interest bearing.

Education Investment Fund (EIF) Special Account
Establishing Instrument: *Nation-building Funds Act 2008*, s.132. Purpose: For making payments in relation to higher education infrastructure, research infrastructure, vocational education and training infrastructure, and any other eligible education infrastructure. The balance of the special account is invested by the Future Fund Board of Guardians. The Future Fund Board of Guardians may invest amounts standing to the credit of the special account in financial assets, although the special account itself is non-interest bearing.

DisabilityCare Australia Fund (DCAF) Special Account
Establishing Instrument: *DisabilityCare Australia Fund Act 2013*, s.11. Purpose: For making reimbursements to State, Territory and Commonwealth Governments in relation to expenditure incurred under the *National Disability Insurance Scheme Act 2013*. The balance of the special account is invested by the Future Fund Board of Guardians. The Future Fund Board of Guardians may invest amounts standing to the credit of the special account in financial assets, although the special account itself is non-interest bearing.

Medical Research Future Fund (MRFF)
Establishing instrument: *Medical Research Future Fund Act 2015*, s.14. Purpose: For making payments in relation to medical research and medical innovation. The balance of the special account is invested by the Future Fund Board of Guardians. The Future Fund Board of Guardians invests amounts standing to the credit of the special account, although the special account itself is non-interest bearing.

The following Special Accounts have not been used during the current and comparative years:

Lands Acquisition Special Account
Establishing Instrument: Lands Acquisition Act 1989, s.89A. Purpose: For holding amounts of compensation due to be paid to a person in respect of compulsory acquisition of land where the amount of compensation payable to the person has been determined under the Lands Acquisition Act 1989, but after three months the amount remains unpaid due to default or delay on the part of the claimant. To date there have not been any transactions through this account.

Services for Other Entities and Trust Moneys (SOETM) Special Account – Department of Finance
Establishing Instrument: Financial Management and Accountability (Establishment of SOETM Special Account – Finance) Determination 2012/08. Purpose: For the receipt of moneys temporarily held in trust for other persons other than the Commonwealth and for the payment to a person other than the Commonwealth, on behalf of the Government, that are not PGPA Act agencies, or as permitted by an Act. The account is non-interest bearing. This special account was established on 26 June 2012 and the determination will sunset on 1 October 2022.

G. Managing Other Uncertainties

This section includes additional information about commitments and other events that may have an impact on future financials. These amounts have not been recorded elsewhere in the statements.

In the following disclosures, Departmental and Administered items are included together for presentation purposes only and these balances should not be compared.

G1 : Commitments

Commitments are defined as:

a) Intentions to create liabilities or assets for the receiving entity, as evidenced by undertakings or agreements to make/obtain future payments to/from other entities; and
b) Are executory contracts that are not recognised under *AASB 137 Provisions, Contingent Liabilities and Contingent Assets* (i.e. not onerous); but
c) Do not include future appropriations.

Commitments are disclosed per requirements of *AASB 117 Leases*, *AASB 138 Intangible Assets* and *AASB 116 Property, Plant and Equipment*.

	Departmental		Administered	
	30 June 2018 $'000	30 June 2017 $'000	**30 June 2018 $'000**	30 June 2017 $'000
BY TYPE				
Commitments receivable				
Domestic property portfolio - rent receivable[1]	**745,546**	983,098	**-**	-
Subleasing - rent receivable[2]	**9,464**	11,170	**-**	-
Net GST recoverable	**37,529**	38,512	**12,699**	12,730
Total commitments receivable	**792,539**	1,032,780	**12,699**	12,730
Commitments payable[3]				
Capital commitments				
Land and buildings[4]	**42,298**	40,206	**185**	105
Intangible assets development	**14,076**	5,089	**-**	-
Infrastructure, plant & equipment	**142**	1,215	**3,299**	-
Total capital commitments	**56,516**	46,510	**3,484**	105
Other commitments				
Operating leases[5]	**351,129**	377,122	**152,137**	140,125
Finance leases[6]	**5,481**	7,075	**-**	-
Net GST payable	**67,777**	89,373	**-**	-
Total other commitments	**424,387**	473,570	**152,137**	140,125
Total commitments payable	**480,903**	520,080	**155,621**	140,230
Net commitments by type	**311,636**	512,700	**(142,922)**	(127,500)
BY MATURITY				
Commitments receivable				
Within 1 year	**73,040**	78,114	**3,582**	3,271
Between 1 to 5 years	**277,465**	397,162	**6,838**	7,725
More than 5 years	**442,034**	557,504	**2,279**	1,734
Total commitments receivable	**792,539**	1,032,780	**12,699**	12,730
Commitments payable				
Capital commitments				
Within 1 year	**48,466**	38,911	**3,484**	105
Between 1 to 5 years	**8,050**	7,599	**-**	-
Total capital commitments	**56,516**	46,510	**3,484**	105
Operating lease commitments				
Within 1 year	**15,729**	17,482	**37,784**	36,059
Between 1 to 5 years	**67,752**	90,864	**82,637**	84,988
More than 5 years	**267,648**	268,776	**31,716**	19,078
Total operating lease commitments	**351,129**	377,122	**152,137**	140,125
Finance lease commitments				
Within 1 year	**3,245**	3,190	**-**	-
Between 1 to 5 years	**2,236**	3,885	**-**	-
Total finance lease commitments	**5,481**	7,075	**-**	-

	Departmental		Administered	
	30 June 2018 $'000	30 June 2017 $'000	**30 June 2018 $'000**	30 June 2017 $'000
Other commitments				
Within 1 year	**5,925**	6,461	**-**	-
Between 1 to 5 years	**23,879**	34,440	**-**	-
More than 5 years	**37,973**	48,472	**-**	-
Total other commitments	**67,777**	89,373	**-**	-
Total commitments payable	**480,903**	520,080	**155,621**	140,230
Net commitments by maturity	**311,636**	512,700	**(142,922)**	(127,500)

[1] Domestic property portfolio rent receivable includes rent to be received from the Australian Government's non-Defence Commonwealth owned property portfolio within Australia.
[2] Subleasing rent receivable arrangements exist with the Department of Human Services for One Canberra Avenue.
[3] Commitments relating to goods and services contracts for current and prior years are not required to be disclosed.
[4] Land and buildings mainly represent outstanding contractual commitments for construction projects.
[5] Operating leases mainly comprise office accommodation for Finance business operations (Departmental) and electorate offices for parliamentarians, Commonwealth Parliament Offices and COMCAR depots (Administered).
[6] Finance leases represent outstanding contractual commitments relating to IT equipment and software.

G2 : Contingencies

Contingent liabilities and contingent assets are not recognised in the Statement of Financial Position but are reported in the notes. They may arise from uncertainty as to the existence of a liability or asset, or represent a liability or an asset in respect of which the amount cannot be reliably measured. Contingent assets are disclosed when settlement is probable but not virtually certain, and contingent liabilities are recognised when settlement is greater than remote.

Finance does not have any significant quantifiable contingent assets or liabilities, nor does it have any unquantifiable contingent assets.

Unquantifiable contingent liabilities

In the normal course of business (including the Property and Insurance functions), Finance has a number of matters that are unquantifiable or subject to litigation. At the date of this report, Finance does not consider the outcome of any such matters likely to have a significant effect on its operations or financial position.

G3 : Subsequent events

There were no subsequent events after the reporting period.

H. Other Information

This section includes additional financial information which is considered relevant to assist users in understanding the financial statements.

H1 : Investments in joint ventures

	Departmental	
	2018	2017
	$'000	$'000
Thurgoona Industrial Estate (Finance owns 85.75%)	**1,133**	1,791
Baranduda Industrial Park (Finance owns 77.65%)	**1,507**	1,820
Total investments in joint ventures	**2,640**	3,611
Cash distributions (Equity returns) received from joint ventures: $1.0m (2016-17: $1.2m)		

Investments in joint ventures are not expected to be sold or fully realised within the next 12 months.

Finance's investment in joint ventures is accounted for using the 'Equity Method' which means the investment asset is carried at cost adjusted for post-acquisition changes in Finance's share of net assets of the joint ventures. Finance has equity in two joint arrangements, one with the City of Albury (Thurgoona Industrial Estate) and one with the City of Wodonga (Baranduda Industrial Park). These joint arrangements involve the development and sale of industrial lots in separate precincts situated within the local government boundaries of Albury and Wodonga.

Equity contributions involve land, estate development costs, rates, maintenance and selling costs. Development works have been completed and finished lots are currently being marketed.

The terms of each agreement provide that the "rights, duties, obligations, and liabilities of the parties shall be several and not joint nor joint and several". This means that the arrangements are not partnerships.

H2 : Other policy and disclosures

This section of the report provides additional information in relation to line items in the primary statements that do not have specific disclosures in the preceding notes. They are additional disclosures directed at the interests of particular users and their needs.

Centralised procurement

Finance develops and manages procurement arrangements for common goods and services to maximise market benefits for Commonwealth entities. Finance manages centralised procurement arrangements for WoAG travel, fleet monitoring, campaign advertising and major office machines. The Coordinated Procurement Contracting Special Account is detailed at Note F3.1.

Competitive neutrality (including income tax equivalent)

Finance is exempt from all forms of taxation except Fringe Benefits Tax and GST.

Finance applies the Australian Government's Competitive Neutrality Policy Statement (June 1996) to properties in the portfolio that are leased and managed in a competitive environment. The taxation equivalent regime is applied as a competitive neutrality charge (shown as competitive neutrality and income tax equivalent in the Statement of Comprehensive Income) and a notional payment is calculated quarterly to cover indirect taxes such as payroll tax, council rates, stamp duty and land tax and income tax based upon accounting income; as if they have been applied to these properties. These amounts have been paid or are payable by Finance to the OPA.

Rental income

Rental income includes rent received from tenants occupying buildings that are part of the Australian Government’s non-Defence property portfolio. It also includes revenue received from sub-leasing arrangements with other entities for non-Commonwealth owned properties.

Resources received free of charge

Resources free of charge are recognised as revenue when, and only when, a fair value can be reliably determined and the services would be purchased if they had not been donated. Use of the resources is recognised as an expense. Resources received free of charge are recorded as either revenue or gains depending on their nature. Resources received free of charge predominantly relate to Australian National Audit Office audit fees for Finance's financial statements and WoAG financial statements (2018: $1.4 million).

Resources received free of charge for Administered includes rent received free of charge for office space in the Ministerial Wing of Parliament House.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, cash held with outsiders, cash in special accounts and demand 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 an insignificant risk of changes in value. Cash is recognised at its nominal amount. Cash or cash equivalent balances that are held for investment purposes are classified as investments.

Return of equity - special accounts

A provision is raised annually for the estimated balance of surplus funds to be returned to the OPA in the following year for the Property Special Account. In any year, the level of this provision reflects the estimated surplus funds arising from Finance's property operations and gross divestment proceeds.

Official Public Account (OPA)

Collections of revenue to the Government are transferred to the OPA which is administered by Finance. Conversely, cash is drawn from the OPA to make payments under Parliamentary appropriation on behalf of the Government. These transfers to and from the OPA are adjustments to the administered cash held by Finance on behalf of the Government and reported as such in the Administered Cash Flow Statement and the Administered Reconciliation Schedule. OPA balances are disclosed in the Administered Schedule of Assets and Liabilities under cash and cash equivalents and the overnight cash balance payable. Given the fluctuation in daily balances, no budget is prepared for these items. The OPA balance is disclosed at Note D1.1.