

Commonwealth of Australia

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

CIRCULATED BY

SENATOR THE HONOURABLE MATHIAS CORMANN
MINISTER FOR FINANCE AND THE PUBLIC SERVICE
OF THE COMMONWEALTH OF AUSTRALIA
DECEMBER 2018

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PREFACE

I am pleased to present the Consolidated Financial Statements (CFS) for the Australian Government for the financial year ended 30 June 2018. The CFS presents the whole of government and general government sector (GGs) financial reports. It consolidates the audited accounts of 184 entities across the public sector.

The CFS has been prepared in accordance with the regulations of the *Public Governance, Performance and Accountability Act 2013* (the PGPA Act) and applicable Australian Accounting Standards (AAS), including the requirements of AASB 1049 *Whole of Government and General Government Sector Financial Reporting* (AASB 1049). The CFS shows the results of the Australian Government's financial performance and cash flows for the year ended 30 June 2018 and the Australian Government's financial position as at 30 June 2018.

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

Operating statement

The Australian Government's net operating balance for the year ended 30 June 2018 was a deficit of \$8.4 billion. For the year ended 30 June 2017, the Australian Government reported a net operating balance deficit of \$36.9 billion.

The Australian Government's taxation revenue increased by \$38.9 billion (10.0 per cent) in 2017-18, reflecting an increase in taxation revenue from companies, individuals and other indirect taxation revenue. Non-taxation revenue increased by \$3.7 billion (10.1 per cent).

The Australian Government's expenses increased by \$14.2 billion (3.1 per cent) in 2017-18. This was mainly driven by a \$6.8 billion (4.5 per cent) increase in gross operating expenses and a \$5.9 billion (4.1 per cent) increase in grants.

Further, the Australian Government's total net acquisition of non-financial assets was lower by \$2.0 billion (22.7 per cent) from \$8.7 billion for 2016-17 to \$6.7 billion for 2017-18.

The Australian Government's fiscal balance deficit improved by \$30.5 billion (66.9 per cent) from \$45.6 billion for 2016-17 to \$15.1 billion for 2017-18, primarily as a result of increased revenue.

Balance sheet

The Australian Government's net worth was negative \$417.8 billion as at 30 June 2018. As at 30 June 2017, the Australian Government's net worth was negative \$391.7 billion.

The Australian Government's financial assets increased by \$27.6 billion (5.9 per cent) for the year ended 30 June 2018. Total non-financial assets increased by \$18.7 billion (10.6 per cent).

Preface

The Australian Government's liabilities increased by \$72.3 billion (7.0 per cent) to \$1,106.6 billion. Interest bearing liabilities increased by \$33.5 billion (5.6 per cent), driven by a \$32.2 billion increase in the issuance volume and market value of Australian Government Securities.

Cash flows

The Australian Government recorded a cash deficit of \$13.7 billion for the year ended 30 June 2018 from operating activities and investing activities in non-financial assets. The cash at the end of the year was \$6.2 billion.

Contingent liabilities, contingent assets and risks

Contingent liabilities and contingent assets for the Australian Government are not disclosed in the balance sheet, but are set out in detail in Note 10A of the CFS. Analysis of interest rate, foreign currency, investment risk, longevity risk, salary risk and other price risks that could potentially impact on the Australian Government's financial position is included in Note 10B and Note 10C of the CFS.

Final Budget Outcome

Under the *Charter of Budget Honesty Act 1998* (the Charter), the Australian Government is also required to publicly release and table a Final Budget Outcome (FBO) report no later than three months after the end of the financial year. The FBO for the 2017-18 financial year was released by the Treasurer and me on 25 September 2018. Under the Charter, the FBO must be based on external reporting standards; including AAS and the concepts and classifications set out in Government Finance Statistics (GFS), with any departures from those standards to be documented.

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

A handwritten signature in blue ink, consisting of a large, stylized 'M' followed by a 'C'.

Senator the Hon Mathias Cormann
Minister for Finance and the Public Service

**COMMENTARY ON THE
CONSOLIDATED FINANCIAL STATEMENTS**

INTRODUCTION

The 2017-18 Consolidated Financial Statements (CFS) for the Australian Government present the whole of government and general government sector (GGS) financial reports and are prepared in accordance with AASB 1049 *Whole of Government and General Government Sector Financial Reporting* (AASB 1049). They are required by section 48 of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act).

The CFS includes the consolidated results for all Australian Government controlled entities as well as disaggregated information on the sectors of government (GGS, public non-financial corporations (PNFC) and public financial corporations (PFC))¹. Unless explicitly stated, the financial results reported in this commentary comprise consolidated amounts for the Australian Government as a whole, inclusive of the GGS, and PNFC and PFC sectors². The GGS results in the 2017-18 CFS materially align with the 2017-18 Final Budget Outcome.

AT A GLANCE

Table 1: Financial results for the year ended 30 June 2018³

	2017-18 \$b	2016-17 \$b	Change \$b
Revenue	467.9	425.2	42.7
Expenses	476.2	462.1	14.2
Net operating balance^(a)	(8.4)	(36.9)	28.5
Per cent of GDP	0.5	2.1	
Net capital investment	6.7	8.7	(2.0)
Fiscal balance^(b)	(15.1)	(45.6)	30.5
Per cent of GDP	0.8	2.6	
Total assets	688.9	642.6	46.3
Total liabilities	1,106.6	1,034.3	72.3
Net worth^(c)	(417.8)	(391.7)	(26.0)
Per cent of GDP	22.7	22.3	
Net cash flows from operating activities	4.4	(23.9)	28.3
Net cash flows from investments in non-financial assets	(18.2)	(15.0)	(3.2)
Cash surplus/(deficit)	(13.7)	(38.9)	25.1

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

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

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

¹ The institutional structure of the public sector is explained in Note 1 of the 2017-18 CFS. Note 15 of the 2017-18 CFS provides the list of Australian Government controlled reporting entities, including their sectoral classification.

² The balances and movements detailed in the commentary have been rounded to the nearest tenth of a billion. Discrepancies between totals and sums of components are due to rounding.

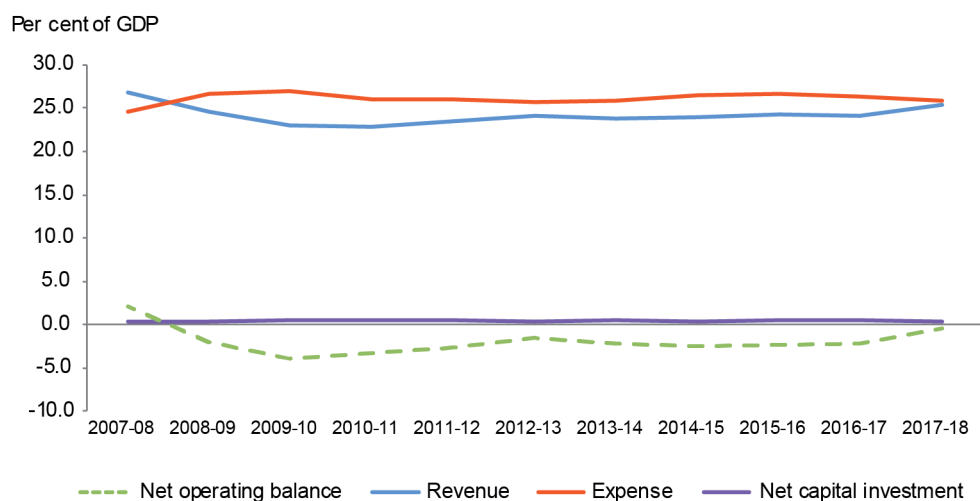
³ The 2016-17 comparatives include adjustments to revenue (\$0.3 billion decrease) and liabilities (\$0.5 billion increase). Refer to Note 1.5 of the 2017-18 CFS for further information.

Operating statement (net operating balance)

Table 2: Operating statement

	2017-18 \$b	2016-17 \$b	Change \$b	Change %
Revenue	467.9	425.2	42.7	10.0
Per cent of GDP	25.4	24.2		1.2
Expenses	476.2	462.1	14.2	3.1
Per cent of GDP	25.9	26.3		0.4
Net operating balance	(8.4)	(36.9)	28.5	77.3
Per cent of GDP	0.5	2.1		1.6
Net capital investment	6.7	8.7	(2.0)	22.7
Per cent of GDP	0.4	0.5		0.1
Fiscal balance	(15.1)	(45.6)	30.5	66.9
Per cent of GDP	0.8	2.6		1.8

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



Balance sheet (net worth)

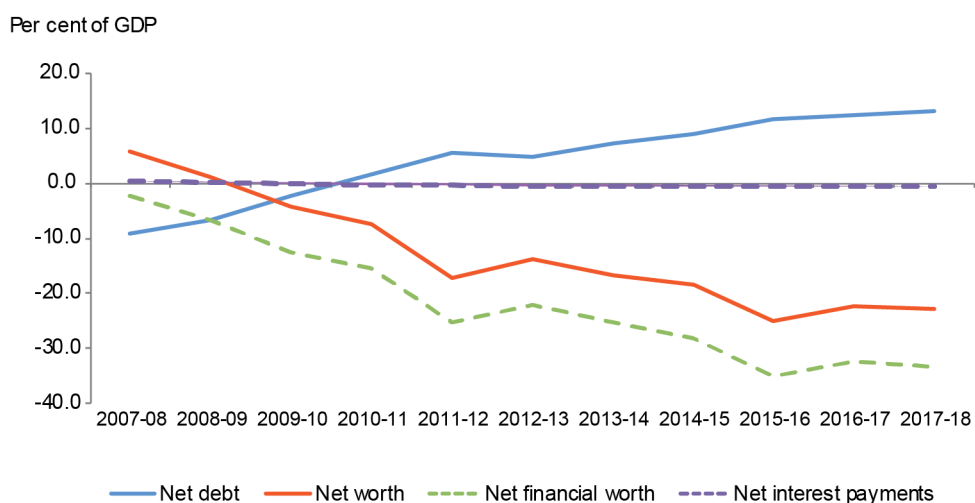
Table 3: Balance sheet

	2017-18 \$b	2016-17 \$b	Change \$b	Change %
Financial assets	493.5	466.0	27.6	5.9
Non-financial assets	195.4	176.6	18.7	10.6
Total assets	688.9	642.6	46.3	7.2
Total liabilities	1,106.6	1,034.3	72.3	7.0
Net worth	(417.8)	(391.7)	(26.0)	6.6
Per cent of GDP	22.7	22.3		0.4
Net financial worth^(a)	(613.1)	(568.4)	(44.7)	7.9
Per cent of GDP	33.3	32.3		1.0
Net debt^(b)	240.7	218.6	22.1	10.1
Per cent of GDP	13.1	12.4		0.6
Net interest payments	(12.2)	(11.4)	(0.9)	7.5
Per cent of GDP	0.7	0.6		0.0

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

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

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



DISCUSSION AND ANALYSIS

Net operating balance

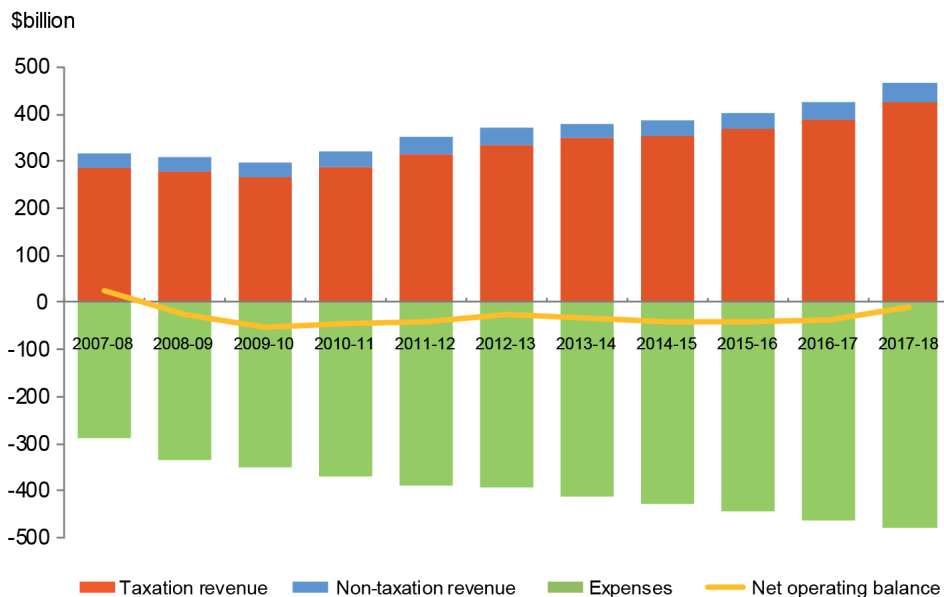
The Australian Government's net operating balance was a deficit of \$8.4 billion for the year ended 30 June 2018, an improvement of \$28.5 billion (77.3 per cent) against the 30 June 2017 result.

Table 4: Operating statement

	2017-18 \$b	2016-17 \$b	Change \$b	Change %
Revenue	467.9	425.2	42.7	10.0
Expenses	476.2	462.1	14.2	3.1
Net operating balance	(8.4)	(36.9)	28.5	77.3
Less Net acquisitions of non-financial assets	6.7	8.7	(2.0)	22.7
Fiscal balance	(15.1)	(45.6)	30.5	66.9

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

Chart 3: Operating statement since 2007-08



Revenue

The Australian Government's revenue increased by \$42.7 billion (10.0 per cent) in 2017-18 to \$467.9 billion.

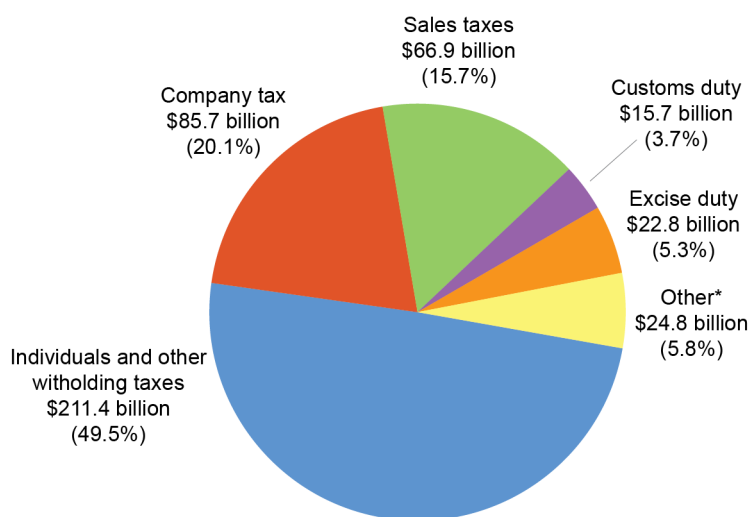
Table 5: Revenue⁴

	2017-18 \$b	2016-17 \$b	Change \$b	Change %
Taxation revenue	427.2	388.3	38.9	10.0
Non-taxation revenue	40.6	36.9	3.7	10.1
Total revenue	467.9	425.2	42.7	10.0

Taxation revenue

The Australian Government's total taxation revenue for the year ended 30 June 2018 was \$427.2 billion. The composition of taxation revenue is shown in Chart 4 below.

Chart 4: Composition of taxation revenue



* Other includes: Superannuation fund taxes (\$10.9 billion); Other indirect taxation (\$9.1 billion); Fringe benefits tax (\$3.8 billion); and Resource rent taxes (\$1.0 billion).

⁴ The 2016-17 comparatives include an adjustment that reclassified \$0.3 billion from taxation revenue to receivables. Refer to Note 1.5 of the 2017-18 CFS for further information.

Taxation revenue increased by \$38.9 billion (10.0 per cent) in comparison to 2016-17. The key changes were:

- an increase of \$14.9 billion (21.0 per cent) in **company tax** due to stronger corporate profitability and stronger compliance outcomes;
- an increase of \$14.0 billion (7.1 per cent) in **individuals and other withholding taxes** consistent with stronger employment growth;
- an increase of \$2.7 billion (4.2 per cent) in **sales taxes** predominantly attributable to the goods and services tax (GST). The increase in GST is consistent with growth in household consumption;
- an increase of \$2.7 billion (32.8 per cent) in **superannuation fund taxes**, mainly due to higher profits from net capital gains;
- an increase of \$2.4 billion (36.5 per cent) in **other indirect taxes**, primarily as a result of the introduction of the bank levy in the 2017-18 financial year; and
- an increase of \$1.5 billion (10.5 per cent) in **customs duty** driven by higher collections for tobacco and alcohol.

Refer to Note 2A of the 2017-18 CFS for further information.

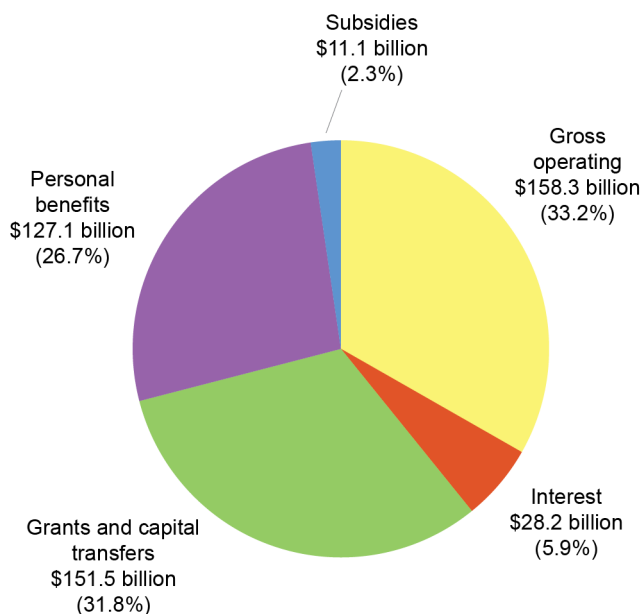
Non-taxation revenue

The Australian Government's total non-taxation revenue for the year ended 30 June 2018 was \$40.6 billion. For more information, refer to Notes 2B to 2D of the 2017-18 CFS.

Expenses

The Australian Government's total expenses for the year ended 30 June 2018 were \$476.2 billion. The composition of expenses is shown in Chart 5 below.

Chart 5: Composition of expenses

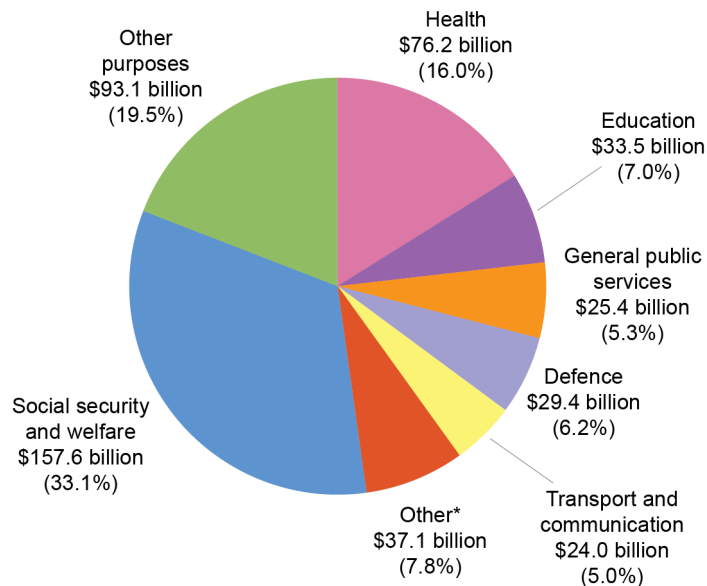


The Australian Government's total expenses increased by \$14.2 billion (3.1 per cent) in comparison to 2016-17. The key changes were:

- an increase in **gross operating expenses** of \$6.8 billion (4.5 per cent). This was driven by an increase of \$6.8 billion in the supply of goods and services expense, mainly due to:
 - an increase in benefits to households in goods and services of \$5.2 billion, primarily relating to the National Disability Insurance Scheme (\$3.2 billion), home support and care benefits (\$1.2 billion) and medical benefits (\$1.1 billion);
 - an increase in the supply of goods and services of \$1.4 billion, primarily relating to the National Broadband Network (\$0.6 billion);
- an increase of \$5.9 billion (4.1 per cent) in **current and capital grants**, primarily as a result of an increase in grants to state and territory governments relating to GST payments (\$4.1 billion);
- an increase of \$1.4 billion (8.2 per cent) in **interest expense**, reflecting a higher Australian Government Securities balance (in face value terms) compared to last financial year; and
- a decrease of \$1.0 billion (0.8 per cent) in **personal benefits expense**, primarily as a result of compliance measures for child care activities.

Chart 6 below provides a presentation of total expenses based on how the Australian Government allocated resources across the range of policy areas. The chart highlights the relative cost of each function for 2017-18.

Chart 6: Total expenses by function



* Other includes: Other economic affairs (\$10.0 billion); Fuel and energy (\$7.4 billion); Housing and community amenities (\$5.4 billion); Public order and safety (\$5.3 billion); Recreation and culture (\$3.7 billion); Agriculture, forestry and fishing (\$2.6 billion); and Mining, manufacturing and construction (\$2.7 billion).

Refer to Note 3 of the 2017-18 CFS for further information on expenses.

Net worth

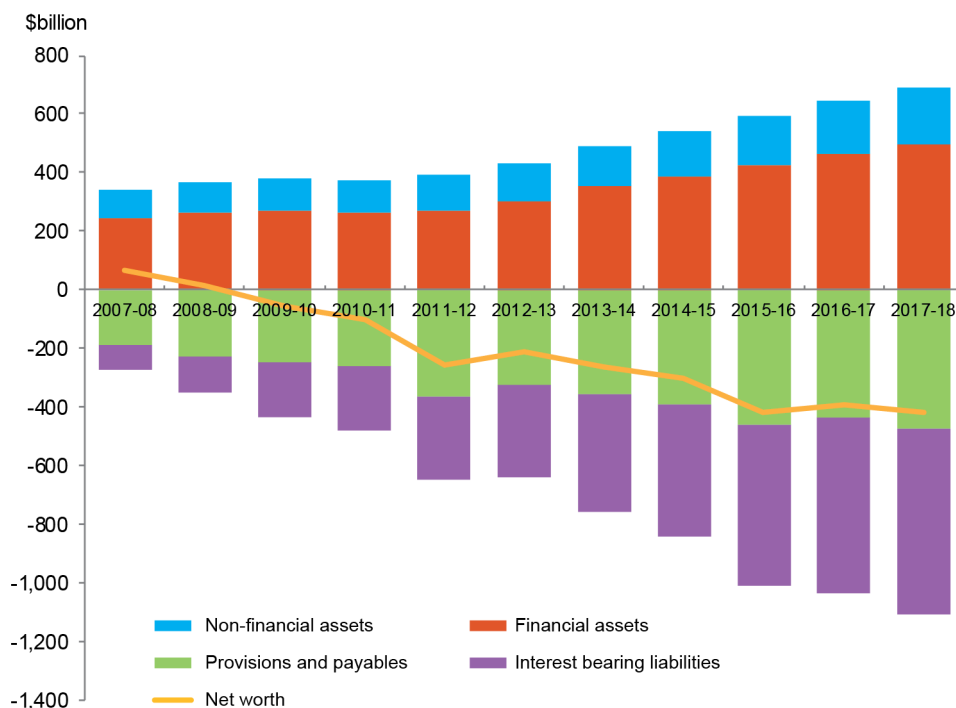
The Australian Government's net worth declined by \$26.0 billion in 2017-18 to a negative net worth of \$417.8 billion as at 30 June 2018.

Table 6: Balance sheet

	2017-18 \$b	2016-17 \$b	Change \$b	Change %
Financial assets	493.5	466.0	27.6	5.9
Non-financial assets	195.4	176.6	18.7	10.6
Total assets	688.9	642.6	46.3	7.2
Interest bearing liabilities	636.3	602.7	33.5	5.6
Provisions and payables	470.4	431.6	38.7	9.0
Total liabilities	1,106.6	1,034.3	72.3	7.0
Net worth	(417.8)	(391.7)	(26.0)	6.6

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

Chart 7: Balance sheet since 2007-08



Assets

The Australian Government's total assets as at 30 June 2018 were \$688.9 billion. The composition of assets is shown in Chart 8 below.

Chart 8: Composition of assets

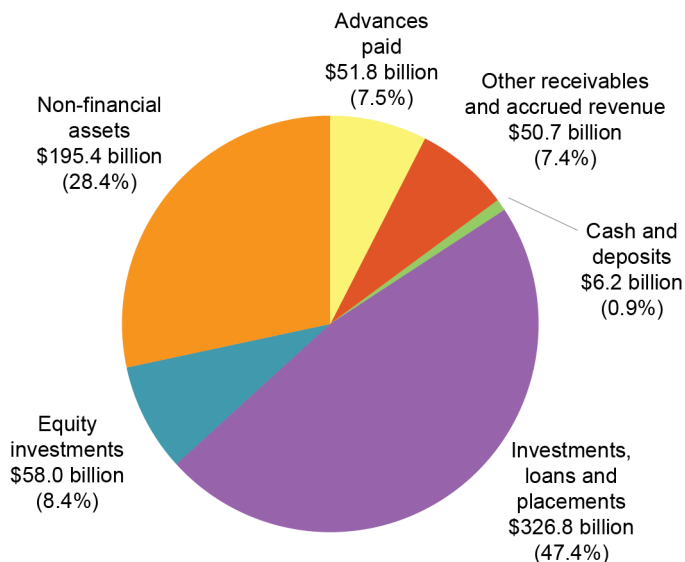


Table 7: Assets

	2017-18 \$b	2016-17 \$b	Change \$b	Change %
Financial assets				
Cash and deposits	6.2	6.3	(0.0)	0.7
Advances paid	51.8	46.1	5.7	12.3
Other receivables and accrued revenue	50.7	46.2	4.5	9.9
Investments, loans and placements	326.8	320.9	5.9	1.9
Equity investments	58.0	46.6	11.4	24.6
Total financial assets	493.5	466.0	27.6	5.9
Non-financial assets	195.4	176.6	18.7	10.6
Total assets	688.9	642.6	46.3	7.2

The Australian Government's total assets increased by \$46.3 billion (7.2 per cent) since 30 June 2017.

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

- an increase of \$11.4 billion in **equity investments**, mainly due to an increase in share investments held by the Future Fund;
- an increase of \$5.9 billion in **investments, loans and placements**, primarily consisting of:
 - a \$7.2 billion increase in non-equity investments held in Australian Government investment funds;
 - a \$3.1 billion increase in non-equity investments held by the Future Fund; partially offset by
 - a \$4.0 billion decrease in foreign exchange holdings held by the Reserve Bank of Australia;
- an increase of \$5.7 billion in **advances paid**, mainly due to an increase to the Higher Education Loan Program scheme (HELP) driven by an increase in loans as well as a result of the yield curve movement based on the 2017-18 actuarial assessment;
- an increase of \$4.5 billion in **other receivables and accrued revenue**, driven by:
 - an increase in net taxes receivable of \$2.7 billion; and
 - an increase in goods, services and other receivables of \$1.9 billion, mainly relating to the Pharmaceutical Benefits Scheme (PBS).

The key changes in **non-financial assets** between 30 June 2017 and 30 June 2018 included the following:

- an increase of \$12.2 billion for **other plant, equipment and infrastructure**, primarily driven by:
 - an increase of \$4.5 billion in network assets for the continued investment in the deployment of the National Broadband Network;
 - initial recognition of \$7.0 billion plant, equipment and infrastructure for Snowy Hydro Limited (SHL) as a result of the Australian Government assuming full ownership of the company on 29 June 2018;
- an increase of \$4.5 billion for **specialist military equipment** (\$3.4 billion) and **land** (\$1.1 billion) primarily as a result of additions and upward revaluation adjustments from the Department of Defence; and
- an increase of \$1.2 billion for **intangibles**, in part driven by the initial recognition of net assets resulting from the Australian Government's full acquisition of SHL.

Refer to Note 5 of the 2017-18 CFS for further information on assets.

Liabilities

The Australian Government's total liabilities were \$1,106.6 billion as at 30 June 2018. The composition of liabilities is shown in Chart 9 below.

Chart 9: Composition of liabilities

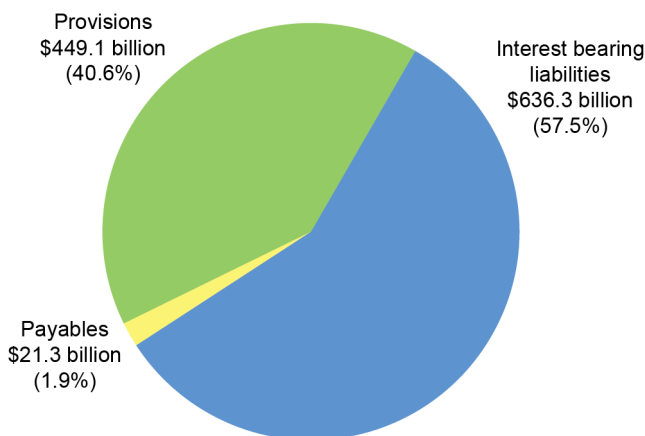


Table 8: Liabilities

	2017-18 \$b	2016-17 \$b	Change \$b	Change %
Interest bearing liabilities	636.3	602.7	33.5	5.6
Provisions and payables	470.4	431.6	38.7	9.0
Total liabilities	1,106.6	1,034.3	72.3	7.0

The Australian Government's liabilities increased by \$72.3 billion (7.0 per cent) since 30 June 2017.

The increase of \$33.5 billion in **interest bearing liabilities** was primarily as a result of:

- an increase of \$32.2 billion in the issuance volume and market value of Australian Government Securities held by the Australian Office of Financial Management;
- an increase of \$1.3 billion in other borrowings, mainly relating to access network infrastructure for the National Broadband Network; and
- an increase of \$1.1 billion in loans predominantly driven by the initial recognition of liabilities resulting from the Australian Government's full acquisition of SHL.

The increase in **provisions and payables** of \$38.7 billion was primarily as a result of:

- an increase of \$34.1 billion in the superannuation liability, predominantly due to the decrease in the long-term government bond rate used to discount expected future superannuation payments (refer to Note 10C of the 2017-18 CFS for further information); and
- an increase of \$1.9 billion in Australian currency (notes) on issue.

Note 6 of 2017-18 CFS provides further information on liabilities.

Cash flows

Table 9: Cash flows

	2017-18 \$b	2016-17 \$b	Change \$b	Change %
Cash receipts				
Operating activities	456.8	415.3	41.4	10.0
Investing activities in non-financial assets	1.7	2.3	(0.7)	29.2
Investing activities in non-financial assets for policy purposes	5.4	3.7	1.8	48.0
Financing activities (net)	38.2	86.6	(48.5)	55.9
Total cash receipts	502.0	508.0	(6.0)	1.2
Cash payments				
Operating activities	452.3	439.2	(13.1)	3.0
Investing activities in non-financial assets	19.8	17.3	(2.5)	14.4
Investing activities in non-financial assets for policy purposes	17.5	9.7	(7.8)	80.6
Investing activities in financial assets for liquidity purposes (net)	6.2	37.3	31.1	83.3
Other Financing activities (net)	6.2	3.8	(2.3)	60.7
Total cash payments	502.1	507.4	5.3	1.0
Net movement in cash	(0.0)	0.6	(0.6)	>100.0
Cash at beginning of the year	6.3	5.7	0.6	10.0
Cash at end of year	6.2	6.3	(0.0)	0.7
Key fiscal aggregate				
Net cash flows from operating activities	4.4	(23.9)	28.3	>100.0
Net cash flows from investments in non-financial assets	(18.2)	(15.0)	(3.2)	21.2
Cash surplus/(deficit)	(13.7)	(38.9)	25.1	64.6

The Australian Government's cash balance was \$6.2 billion at 30 June 2018. For the year ended 30 June 2018, the Australian Government recorded a cash deficit of \$13.7 billion, an improvement of \$25.1 billion compared to a cash deficit of \$38.9 billion for 2016-17.

Receipts and payments

The following charts provide a detailed breakdown of Australian Government receipts and payments for 2017-18, showing the relative composition of each dollar received and paid.

Chart 10: Composition of each dollar of cash received in 2017-18

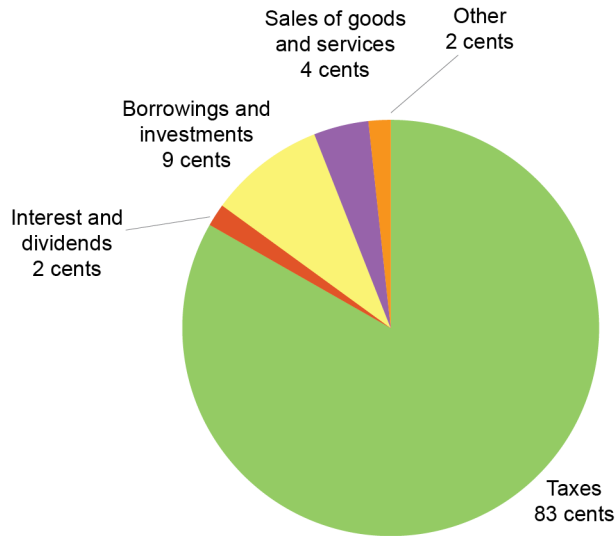


Chart 11: Composition of each dollar of cash paid in 2017-18

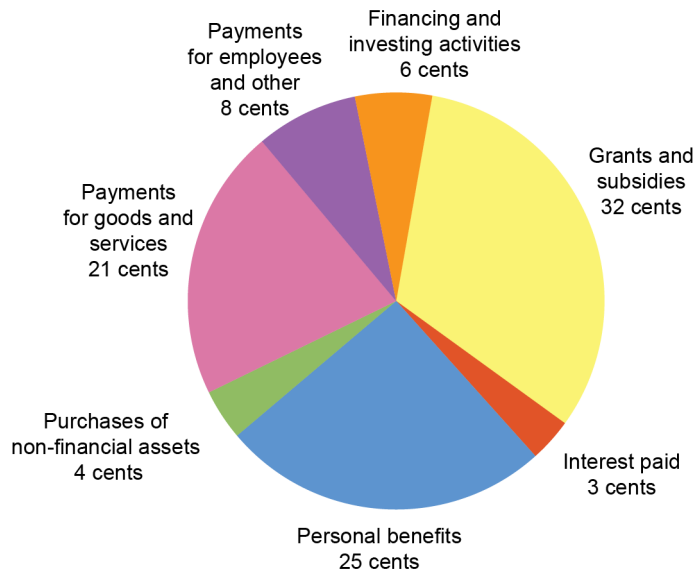
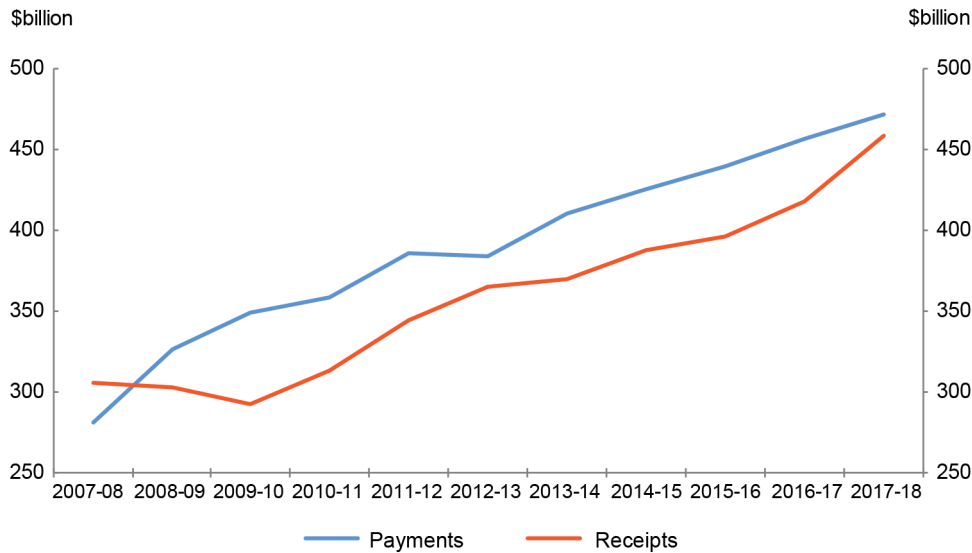


Chart 12 provides the trend of the Australian Government’s receipts and payments for operating activities and the sales and purchases of non-financial assets since 2007-08.

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



APPENDIX A

PREVIOUS YEARS

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

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

LINKS TO OTHER PUBLICATIONS

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

2017-18 Final Budget Outcome

The 2017-18 Final Budget Outcome (FBO) was prepared in a manner consistent with the *Charter of Budget Honesty Act 1998* (the Charter). The Charter requires that the Government provide the FBO no later than three months after the end of the financial year. Consistent with these requirements, the FBO encompasses Australian Government GGS fiscal outcomes for the 2017-18 financial year and is based on external reporting standards.

The FBO is available on the Australian Government website at:
<http://www.budget.gov.au/2017-18/content/fbo/html>.

Australian Government Monthly Financial Statements

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

The Australian Government GGS Monthly Financial Statements are available on the website of the Minister for Finance and the Public Service as well as the Department of Finance website:

<http://www.finance.gov.au/publications/commonwealth-monthly-financial-statements> and <http://www.financeminister.gov.au/media-releases>.

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

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

The *Budget Strategy and Outlook – Budget Paper No.1 – 2017-18*, the *Mid-Year Economic and Fiscal Outlook 2017-18* and the *Budget Strategy and Outlook – Budget Paper No.1 – 2018-19* have been prepared in accordance with the Charter.

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

Tax Expenditures Statement 2017

The *Tax Expenditures Statement* (TES) provides details of concessions, benefits, incentives and charges provided through the tax system (tax expenditures) to taxpayers by the Australian Government. Information is published on the Treasury website at: <http://treasury.gov.au/publication/2017-tax-expenditures-statement/>.

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



Auditor-General for Australia



INDEPENDENT AUDITOR'S REPORT

To the Minister for Finance and the Public Service

Opinion

In my opinion, the Consolidated Financial Statements which include the Australian Government and the General Government Sector (GGS) Financial Reports for the year ended 30 June 2018:

- (a) comply with Australian Accounting Standards; and
- (b) present fairly the financial position of the Australian Government and the General Government Sector as at 30 June 2018 and their financial performance and cash flows for the year then ended.

The Consolidated Financial Statements, which I have audited, comprise the following statements as at 30 June 2018 and for the year then ended:

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

Basis for Opinion

I conducted my audit in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent in accordance with the relevant ethical requirements for financial statement audits. These include the relevant independence requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (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. I do not provide a separate opinion on these matters. The key audit matters are detailed below.

Key audit matter	How the audit addressed the matter
<p>Completeness and accuracy of taxation revenue</p> <p><i>Refer to Note 2A 'Taxation Revenue'</i></p> <p>The balance of taxation revenue is significant to the Australian Government operating statements (GGS: \$427.2 billion, Australian Government: \$427.2 billion for the year ended 30 June 2018).</p> <p>Taxation revenue collection and estimates are dependent on information provided by taxpayers in self-assessment and voluntary compliance regimes. Ineffective design and implementation of compliance risk management would elevate the risk that incorrect taxation lodgments/ collections are not detected and corrected.</p> <p>The Australian Government uses various methodologies to calculate estimates for taxation revenues. Estimation techniques have inherent risks of error and rely on assumptions such as wage growth, gross domestic product and historical information. The impact of economic conditions and the timing of final taxable income and measurement of revenues and expenses can also be difficult to estimate.</p> <p>The completeness and accuracy of taxation revenue is a key audit matter for me due to complexity in determining the revenues due under self-assessment and voluntary compliance regimes. Significant professional judgement is also involved in the application of methodologies and assumptions (including about volatility of economic conditions that increase the uncertainty of the estimates).</p>	<p>To address the key audit matter, I:</p> <ul style="list-style-type: none"> • benchmarked compliance risk management against the Organisation for Economic Cooperation and Development's best practice principles of what constitutes an effective taxation compliance program; • assessed risk identification, assessment and prioritisation processes and risk treatment strategies and associated reporting; • assessed the process of monitoring performance and evaluating compliance outcomes for taxation revenue on a sample basis; • tested the completeness, relevance and accuracy of the data used to develop estimates; • assessed the interpretation and analysis of data applied for the various estimates and allocations and recalculated revenue estimates for all material estimates at year-end; • evaluated the adequacy of documentation to support the judgements made in relation to key estimates and allocations of revenue at year-end; and • assessed the accuracy of customs duty collected by evaluating the appropriateness of tariffs and exchange rates applied and by testing a sample of transactions to supporting documentation.
Key audit matter	How the audit addressed the matter
<p>Valuation of Loans and Receivables</p> <p><i>Refer to Note 5A 'Advances paid and receivables'</i></p> <p>Loans and receivables are significant to the Australian Government balance sheet at 30 June 2018 (advances paid - GGS: \$56.1 billion, Australian Government: \$51.8 billion; receivables - GGS: \$49.9 billion, Australian Government: \$50.7 billion).</p> <p>Advances paid reflect loans provided by the Government, including student loans under the Higher Education Loan Program (HELP). Student loans are recognised at fair value, which takes account of the uncertainty in repayments as the loans are contingent on reaching income thresholds. At 30 June 2018 there is a fair value adjustment of \$18.6 billion against student loans, reflecting expected non-repayment.</p> <p>Receivables reflect amounts due from taxation,</p>	<p>To address the key audit matter, I:</p> <ul style="list-style-type: none"> • evaluated the appropriateness of the methodology supporting the Australian Government's student loans compliance program; • tested the completeness, accuracy and appropriateness of the source information used in the estimates; • evaluated the methodology and approach used in developing estimates of recoveries, assisted by independent actuarial experts for higher risk loans and receivables; • assessed the reasonableness of key assumptions such as the timing and amount of expected cash flows and discount rates by comparing them, where possible, to industry benchmarks; and

personal benefits and other receivables. These assets are assessed for recoverability and impaired where they are deemed not recoverable. Impairment provisions of \$22.2 billion have been recognised at 30 June 2018.

The valuation of loans and receivables is a key audit matter for me due to the inherent complexity and uncertainty in estimating fair value including recoverability and impairments and the sensitivity of these balances to changes in assumptions.

- tested, on a sample basis, the estimation process for disputed taxation debts of individual taxpayers to the Australian Government and the accounting treatment on individual taxpayer accounts.

Key audit matter

How the audit addressed the matter

Valuation of Financial Assets

The Australian Government has financial assets of \$493.5 billion (GGS: \$415.8 billion) as at 30 June 2018. The valuation of these assets is complex and in some cases requires estimating the fair value of the instrument based on assumptions about the future. I have identified some specific financial assets because of the significance of those assets and the judgements applied in making the valuations.

Collective Investments

Refer to Note 5B 'Investments, loans and placements'

The balance of collective investments is significant to the Australian Government balance sheet (GGS: \$67.9 billion, Australian Government: \$67.9 billion as at 30 June 2018).

Collective investments vehicles are holdings of a diverse range of asset categories including private equity investments, hedge funds, direct and indirect property, infrastructure and timberland assets. Valuation techniques vary depending on the particular asset category and holding.

All investments are held in custody by the Future Fund Management Agency and Board of Guardians' appointed custodian.

I consider the valuation of collective investment vehicles to be a key audit matter due to the size of the investments, and the inherent subjectivity and significant judgements and estimates required where market data is not available to determine the fair value of these investments.

To assess the controls over the valuation of collective investment vehicles I:

- inspected the custodian's independent auditor's assurance report in respect of the valuation of investments at the custodian;
- assessed the competence and experience of the custodian's independent auditor; and
- tested a sample of the controls in place at the Future Fund Management Agency and Board of Guardians to validate and challenge the valuation of collective investment vehicles.

With the assistance of a valuation specialist I assessed, on a sample basis, the valuation of indirectly held single infrastructure and timberland investments as at 30 June 2018. To do so I:

- evaluated the competence and objectivity of the valuation expert used by management;
- tested the valuation models used including the reasonableness of key assumptions regarding growth rates, discount rates and multiples applied to earnings within the models; and
- performed a cross-check between management's valuation and the valuation applied by comparable companies, including the underlying assumptions.

To assess the valuation of all other collective investment vehicles as at 30 June 2018, on a

sample basis, I:

- agreed the fair value to capital account statements received from the underlying investment manager;
- obtained audited financial statements as at 30 June 2018, where available, and agreed the audited net asset value to the capital account statements;
- where 30 June 2018 audited financial statements were unavailable, performed roll-forward procedures from the most recent set of audited financial statements; and
- performed an assessment of the audited financial statements of the collective investment vehicle which included considering the regulatory framework under which the financial statements were prepared, the accounting policies adopted and evaluating the competence and objectivity of the audit firm performing the audit and the opinion provided.

Investments in Public Corporations

Refer to Note 5C 'Investments in public corporations'

The balance of investments in public corporations is significant to the General Government Sector balance sheet (\$55.3 billion as at 30 June 2018, investments in public corporations are not relevant for the Australian Government as the amounts are eliminated on consolidation).

GGs investments in public corporations are valued using a discounted net cash flow where the corporation generates significant non-government cash inflows and those cash flows can be reliably predicted. If non-government cash flows are not significant or cannot be reliably predicted, the valuation is based on net assets of the corporation, adjusted where necessary to align with the Australian Government's accounting policies.

This is a key audit matter for me due to inherent subjectivity and the significant judgements, complexity of valuation techniques and assumptions required in determining fair value.

To address the matter, I:

- evaluated the approach adopted for the valuation for each entity, including assessing whether the choice of valuation technique was appropriate in the circumstances;
- where the net assets method was used, tested adjustments made to align with Australian Government accounting policies, such as the valuation of property, plant and equipment;
- assessed the appropriateness of key assumptions and inputs used in the discounted cash flow valuation models,
- tested the accuracy of amounts against estimates and public documents produced by the entity and, where possible, comparable companies; and
- considered the sensitivity of the valuation methodology by adjusting key assumptions for reasonably foreseeable alternate scenarios.

Key audit matter

Valuation of Non-Financial Assets

The Australian Government has non-financial assets of \$195.3 billion (GGs: \$147.3 billion) as at 30 June 2018.

The valuation of some assets requires significant judgement due to the uncertainties inherent in the valuation of these significant physical assets.

How the audit addressed the matter

Specialist Military Equipment

Refer to Note 5D 'Specialist Military Equipment'

The balance of specialist military equipment is significant to the Australian Government balance sheet (GGS: \$62.0 billion, Australian Government: \$62.0 billion as at 30 June 2018).

Specialist military equipment includes platform assets in use, under construction and spare parts. Specialist military equipment was measured at its fair value.

This is a key audit matter for me because measurement of specialist military equipment at fair value involves a high degree of management judgement due to the highly specialised nature of these assets and the judgements required to determine appropriate useful lives and assess the financial impact of indicators of impairment. There is also subjectivity in the valuation assessment due to the difficulty in obtaining the replacement costs of assets with a similar capability in the absence of an active market.

To address the matter, I:

- tested the completeness and accuracy of data used in the estimation process;
- assessed the competence and objectivity of valuation subject matter experts;
- assessed the fair value methodology applied was appropriate for each asset applying either the replacement cost of platforms with similar capabilities or indexation of historical cost;
- assessed whether the useful lives applied to specialist military equipment (for the calculation of depreciation) were consistent with other available information such as expected withdrawal dates for these assets;
- tested a sample of cost attribution models, approval of cost allocations and year-end accruals relating to assets under construction;
- assessed whether the assumptions used in determining impairment were consistent with other available information such as changes to planned capabilities and unscheduled repairs and maintenance; and
- inspected a sample of assets for indicators of impairment.

Other Plant, Equipment and Infrastructure

Refer to Note 5D 'Other Plant, Equipment and Infrastructure'

The balance of other plant, equipment and infrastructure is significant to the Australian Government balance sheet (GGS: \$15.5 billion, Australian Government: \$54.7 billion as at 30 June 2018).

Other plant, equipment and infrastructure is made up of a large number of assets held across the Commonwealth including some large infrastructure holdings such as the National Broadband Network (nbn Co Ltd) and the assets acquired with the purchase of Snowy Hydro Limited.

This is a key audit matter for me due to inherent subjectivity in the valuation of plant, equipment and infrastructure held, in particular nbn network infrastructure, and the emergence of new technologies.

To address the matter, I engaged experts, where appropriate, to assist me with:

- assessing the appropriateness of the approach used to measure fair value for each type of asset;
- assessing the significant judgements made by management in determining fair value;
- assessing whether the useful lives applied were reasonable and consistent with available information;
- assessing the impact of key technological advances and economic obsolescence on fair value calculations for a sample of asset types; and
- performing sensitivity analysis by varying factors such as discount rates and growth rates to develop a range of reasonable valuation outcomes.

Key audit matter**Valuation of superannuation liability**

Refer to Note 6F 'Superannuation liabilities'

The balance of superannuation liabilities is significant to the Australian Government balance sheet (GGS: \$313.5 billion, Australian Government: \$313.9 billion superannuation liabilities as at 30 June 2018).

Superannuation liabilities represent retirement and death benefits for Commonwealth and Defence Force employees, based on service to date.

The valuation of the superannuation liabilities is a key audit matter for me due to the measurement of the liabilities being complex, requiring significant judgement and estimation in the selection of long-term assumptions, including the 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 controls 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 methodology, assumptions and judgements used in estimating the superannuation liabilities, including comparison against accepted industry benchmarks; and
- tested disclosures of key judgements and estimates made, including the disclosure of sensitivity analysis over significant judgements.

Other Information

The Minister for Finance and the Public Service (the Minister) is responsible for the other information. The other information comprises the information included in the Preface and the Commentary on the Consolidated Financial Statements for the year ended 30 June 2018 but does not include the financial statements and my auditor's report thereon.

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

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

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

Minister's Responsibility for the Financial Statements

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

In preparing the financial statements, the Minister is responsible for assessing the Australian Government's ability to continue as a going concern. The Minister is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the assessment indicates that it is not appropriate.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- identify and assess the risks of material misstatement of the Consolidated Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Australian Government's internal control relevant to the preparation and fair presentation of the Consolidated Financial Statements;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Minister;
- conclude on the appropriateness of the Minister'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 Australian Government'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 Australian Government to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the Consolidated Financial Statements, including the disclosures, and whether the Consolidated Financial Statements represent the underlying transactions and events in a manner that achieves fair presentation; and
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities to express an opinion on the Consolidated Financial Statements. I am responsible for the direction, supervision and performance of the Consolidated Financial Statements audit. I remain solely responsible for my audit opinion.

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

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
Auditor-General

Canberra

16 November 2018

STATEMENT OF COMPLIANCE

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

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

- (a) comply with Australian Accounting Standards; and
- (b) present fairly the Australian Government's financial position as at 30 June 2018 and its financial performance and cash flows for the year then ended.

A large, stylized handwritten signature in blue ink, consisting of the letters 'M' and 'C' joined together.

Senator the Hon Mathias Cormann
Minister for Finance and the Public Service

15 November 2018

Australian Government operating statement for the year ended 30 June 2018

	Note	2018 \$m	2017 \$m
Revenue from transactions			
Taxation revenue	2A	427,239	388,296
Sales of goods and services	2B	21,114	18,404
Interest income	2C	4,774	4,145
Dividend income	2C	4,247	3,556
Other	2D	10,487	10,795
Total revenue		467,861	425,196
Expenses from transactions			
<i>Gross operating expenses</i>			
Wages and salaries	3A	23,570	23,322
Superannuation	3A	8,357	10,431
Depreciation and amortisation	3B	11,684	10,456
Supply of goods and services	3C	107,362	100,609
Other operating expenses	3A	7,353	6,718
<i>Total gross operating expenses</i>		<i>158,326</i>	<i>151,536</i>
Superannuation interest expense	3A	9,240	8,445
Interest expense	3D	18,996	17,553
<i>Current transfers</i>			
Current grants	3E	139,286	134,313
Subsidy expenses		11,070	10,853
Personal benefits		127,146	128,150
<i>Total current transfers</i>		<i>277,502</i>	<i>273,316</i>
<i>Capital transfers</i>			
Mutually agreed write-downs	3E	1,996	1,203
Other capital grants	3E	10,180	10,028
<i>Total capital transfers</i>		<i>12,176</i>	<i>11,231</i>
Total expenses	3F	476,240	462,081
Net operating balance		(8,379)	(36,885)
Other economic flows - included in operating result			
Net write-down of assets (including bad and doubtful debts)	4A	(8,239)	(13,420)
Net gains/(losses) from the sale of assets	4B	7,220	4,967
Net foreign exchange gains/(losses)	4C	1,982	149
Net swap interest gains/(losses)	4C	89	122
Net fair value gains/(losses)	4C	5,876	19,330
Net other gains/(losses)	4C	(2,636)	222
Operating result(a)		(4,087)	(25,515)
Other economic flows - other non-owner movements in equity			
<i>Items that will not be reclassified to operating result</i>			
Revaluation of non-financial assets	7	2,728	1,705
Actuarial revaluations of superannuation		(25,293)	45,898
Other economic revaluations		62	(95)
<i>Items that may be reclassified subsequently to operating result</i>			
Revaluation of equity investments	7	515	59
Comprehensive result - total change in net worth		(26,075)	22,052
Net operating balance		(8,379)	(36,885)
less Net acquisition of non-financial assets			
Purchases of non-financial assets		22,190	19,667
less Sales of non-financial assets		4,434	939
less Depreciation and amortisation		11,684	10,456
plus Change in inventories		680	397
plus Other movements in non-financial assets		(31)	29
Total net acquisition of non-financial assets		6,721	8,698
Fiscal balance (Net lending/(borrowing))		(15,100)	(45,583)

(a) Includes \$4 million attributable to minority interests (2017: \$1 million).

Certain comparatives have been restated. Refer to Note 1.5 for further details.

Australian Government balance sheet
as at 30 June 2018

	Note	2018 \$m	2017 \$m
Assets			
<i>Financial assets</i>			
Cash and deposits		6,242	6,283
Advances paid	5A	51,765	46,093
Other receivables and accrued revenue	5A	50,696	46,150
Investments, loans and placements	5B	326,823	320,878
Equity investments	5C	57,992	46,561
<i>Total financial assets</i>		493,518	465,965
<i>Non-financial assets</i>			
Land	5D	13,316	12,237
Buildings	5D	29,073	28,112
Specialist military equipment	5D	62,020	58,573
Other plant, equipment and infrastructure	5D	54,689	42,475
Intangibles	5D	11,519	10,360
Investment property	5D	341	281
Inventories	5E	8,831	8,689
Heritage and cultural assets	5D	11,619	11,630
Other non-financial assets	5F	3,943	4,280
<i>Total non-financial assets</i>		195,351	176,637
Total assets	5G	688,869	642,602
Liabilities			
<i>Interest bearing liabilities</i>			
Deposits held	6A	33,841	34,761
Government securities	6B	567,661	535,445
Loans	6C	15,181	14,100
Other borrowings	6D	8,807	7,515
Other interest bearing liabilities	6E	10,760	10,885
<i>Total interest bearing liabilities</i>		636,250	602,706
<i>Provisions and payables</i>			
Superannuation liability	6F	313,913	279,799
Other employee liabilities	6F	21,714	20,058
Supplier payables	6G	11,906	11,010
Personal benefits payable	6G	2,758	2,451
Subsidies payable	6G	602	549
Grants payable	6G	3,068	3,924
Australian currency on issue	6H	75,565	73,623
Other payables	6G	2,945	4,259
Other provisions	6H	37,899	35,966
<i>Total provisions and payables</i>		470,370	431,639
Total liabilities		1,106,620	1,034,345
Net worth			
Accumulated results		(500,731)	(468,931)
Reserves		82,869	77,125
Minority interests		111	63
Net worth		(417,751)	(391,743)

Certain comparatives have been restated. Refer to Note 1.5 for further details.

Australian Government cash flow statement for the year ended 30 June 2018

	Note	2018 \$m	2017 \$m
OPERATING ACTIVITIES			
Operating cash received			
Taxes received		417,966	379,239
Receipts from sales of goods and services		21,357	18,182
Interest receipts		4,736	4,061
Dividend receipts		4,102	3,500
Other receipts		8,598	10,349
Total cash received		456,759	415,331
Operating cash used			
Payments for employees		(32,368)	(32,934)
Payments for goods and services		(105,903)	(99,041)
Grants and subsidies paid		(161,643)	(155,717)
Interest paid		(16,943)	(15,415)
Personal benefits paid		(127,940)	(130,828)
Other payments		(7,527)	(5,277)
Total cash used		(452,324)	(439,212)
Net cash flows from operating activities	8	4,435	(23,881)
INVESTING ACTIVITIES			
Investments in non-financial assets			
Sales of non-financial assets		1,657	2,340
Purchases of non-financial assets		(19,838)	(17,339)
Net investments in non-financial assets		(18,181)	(14,999)
Investments in financial assets for policy purposes			
Receipts from policy investments		5,446	3,679
Payments for policy investments(a)		(17,539)	(9,712)
Net investments in financial assets for policy purposes		(12,093)	(6,033)
Investments in financial assets for liquidity purposes		(6,213)	(37,307)
Net cash from investing activities		(36,487)	(58,339)
FINANCING ACTIVITIES			
Net financing cash received			
Borrowings		34,481	75,280
Other financing		3,695	11,347
Net cash received		38,176	86,627
Net financing cash used			
Other financing		(6,165)	(3,836)
Net cash used		(6,165)	(3,836)
Net cash flows from financing activities		32,011	82,791
Net (decrease)/increase in cash held		(41)	571
Cash at beginning of year		6,283	5,712
Cash at end of year		6,242	6,283
Key fiscal aggregate			
Net cash flows from operating activities		4,435	(23,881)
Net cash flows from investments in non-financial assets		(18,181)	(14,999)
Cash surplus/(deficit)		(13,746)	(38,880)

(a) Includes \$6,114 million in payments to New South Wales and Victoria for their shareholdings in Snowy Hydro Limited in 2018. Refer to Note 9 for further detail.

Certain comparatives have been restated. Refer to Note 1.5 for further details.

Australian Government statement of changes in equity (net worth)
for the year ended 30 June 2018

Item	Reserves								Total Net Worth
	Accumulated results	Asset revaluation reserve	Foreign currency translation reserve	Investments reserve	Statutory funds	Other reserves	Total reserves	Contributed equity	
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Australian Government									
Adjusted opening balance as at 1 July 2016	(483,495)	49,510	56	5,900	8,514	5,720	69,700	-	(413,795)
Comprehensive result - change in net worth	20,128	1,262	(12)	688	-	(14)	1,924	-	22,052
Transfers to/(from)/between reserves	(5,503)	(63)	(1)	7,616	-	(2,049)	5,503	-	-
Net worth as at 30 June 2017	(468,870)	50,709	43	14,204	8,514	3,657	77,127	-	(391,743)
less: Minority interests	61	-	-	2	-	-	2	-	63
Attributable to the General Government									
Sector at 30 June 2017	(468,931)	50,709	43	14,202	8,514	3,657	77,125	-	(391,806)
Non-material changes in accounting policy and errors	80	(16)	-	(1)	-	7	(10)	-	70
Adjusted opening balance as at 1 July 2017	(468,790)	50,693	43	14,203	8,514	3,664	77,117	-	(391,673)
Dividends provided for or paid	(3)	-	-	-	-	-	-	-	(3)
Comprehensive result - change in net worth	(29,480)	2,974	16	273	-	142	3,405	-	(26,075)
Transfers to/(from)/between reserves	(2,348)	(12)	-	(809)	-	3,169	2,348	-	-
Net worth as at 30 June 2018	(500,621)	53,655	59	13,667	8,514	6,975	82,870	-	(417,751)
less: Minority interests	110	-	-	1	-	-	1	-	111
Attributable to the General Government									
Sector at 30 June 2018	(500,731)	53,655	59	13,666	8,514	6,975	82,869	-	(417,862)

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

SECTOR STATEMENTS

Australian Government operating statement by sector — including General Government Sector Financial Report
for the year ended 30 June 2018

	Note	General Government		Public non-financial corporations		Public financial corporations		Eliminations and netting(a)		Australian Government	
		2018 \$m	2017 \$m	2018 \$m	2017 \$m	2018 \$m	2017 \$m	2018 \$m	2017 \$m	2018 \$m	2017 \$m
Revenue from transactions											
Taxation revenue	2A	427,245	388,369	-	-	-	-	(6)	(73)	427,239	388,296
Sales of goods and services	2B	9,770	8,230	11,770	10,678	734	698	(1,160)	(1,202)	21,114	18,404
Interest income	2C	3,317	2,992	63	55	2,183	2,187	(789)	(1,089)	4,774	4,145
Dividend income	2C	5,086	4,998	9	-	74	77	(922)	(1,519)	4,247	3,556
Other	2D	10,703	10,863	476	161	151	147	(843)	(376)	10,487	10,795
Total revenue		456,121	415,452	12,318	10,894	3,142	3,109	(3,720)	(4,259)	467,861	425,196
Expenses from transactions											
Gross operating expenses											
Wages and salaries	3A	19,213	19,059	4,167	4,085	190	178	-	-	23,570	23,322
Superannuation	3A	7,789	9,831	493	509	81	98	(6)	(7)	8,357	10,431
Depreciation and amortisation	3B	8,790	8,214	2,824	2,186	70	56	-	-	11,684	10,456
Supply of goods and services	3C	100,468	94,587	7,882	6,886	425	438	(1,413)	(1,302)	107,362	100,609
Other operating expenses	3A	6,721	5,906	578	613	59	207	(5)	(8)	7,353	6,718
Total gross operating expenses		142,981	137,597	15,944	14,279	825	977	(1,424)	(1,317)	158,326	151,536
Superannuation interest expense	3A	9,240	8,445	-	-	-	-	-	-	9,240	8,445
Interest expense	3D	17,811	16,960	702	526	1,272	1,154	(789)	(1,087)	18,996	17,553
Current transfers											
Current grants	3E	139,282	134,314	-	-	-	-	4	(1)	139,286	134,313
Subsidy expenses		11,224	11,002	-	-	-	-	(154)	(149)	11,070	10,853
Personal benefits		127,146	128,150	-	-	-	-	-	-	127,146	128,150
Tax expenses		-	-	44	99	2	1	(46)	(100)	-	-
Total current transfers		277,652	273,466	44	99	2	1	(196)	(250)	277,502	273,316
Capital transfers											
Mutually agreed write-downs	3E	1,996	1,203	-	-	-	-	-	-	1,996	1,203
Other capital grants	3E	10,597	10,140	-	-	-	-	(417)	(112)	10,180	10,028
Total capital transfers		12,593	11,343	-	-	-	-	(417)	(112)	12,176	11,237
Total expenses		450,277	447,811	16,690	14,904	2,099	2,132	(2,826)	(2,766)	476,240	462,081
Net operating balance		(4,156)	(32,359)	(4,372)	(4,010)	1,043	977	(894)	(1,493)	(8,379)	(36,885)

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

Australian Government operating statement by sector — including General Government Sector Financial Report (continued)
for the year ended 30 June 2018

	Note	General Government		Public non-financial corporations		Public financial corporations		Eliminations and netting(a)		Australian Government	
		2018 \$m	2017 \$m	2018 \$m	2017 \$m	2018 \$m	2017 \$m	2018 \$m	2017 \$m	2018 \$m	2017 \$m
Other economic flows - included in operating result											
Net write-down of assets (including bad and doubtful debts)											
Net gains/(losses) from the sale of assets	4A	(8,108)	(13,387)	(129)	(31)	(2)	(4)	-	2	(8,239)	(13,420)
Net foreign exchange gains/(losses)	4B	7,477	5,515	2	22	(259)	(569)	-	(1)	7,220	4,967
Net swap interest gains/(losses)	4C	(1,269)	1,439	(9)	(4)	3,260	(1,286)	-	-	1,982	149
Net fair value gains/(losses)	4C	61	98	-	(6)	28	30	-	-	89	122
Net other gains/(losses)	4C	5,819	19,176	-	95	57	60	-	(1)	5,876	19,330
	4C	(2,475)	230	34	(7)	(195)	-	-	(1)	(2,636)	222
Operating result(b)		(2,651)	(19,288)	(4,474)	(3,941)	3,932	(792)	(894)	(1,494)	(4,087)	(25,515)
Other economic flows - through equity											
Will not be reclassified to operating result											
Revaluation of non-financial assets	7	2,420	1,488	232	143	76	73	-	1	2,728	1,705
Actuarial revaluations of superannuation		(25,685)	44,904	355	569	37	425	-	-	(25,293)	45,898
Other economic revaluations		44	(67)	6,976	(119)	2	(1)	(6,960)	92	62	(95)
May be reclassified to operating result											
Revaluation of equity investments	7	(869)	(5,159)	-	-	224	(420)	1,160	5,638	515	59
Comprehensive result		(26,741)	21,878	3,089	(3,348)	4,271	(715)	(6,694)	4,237	(26,075)	22,052
Net operating balance		(4,156)	(32,359)	(4,372)	(4,010)	1,043	977	(894)	(1,493)	(8,379)	(36,885)
less Net acquisition of non-financial assets											
Purchases of non-financial assets		13,735	11,545	8,402	8,012	53	110	-	-	22,190	19,667
less Sales of non-financial assets		4,260	873	174	64	1	2	(1)	-	4,434	939
less Depreciation and amortisation		8,790	8,214	2,824	2,186	70	56	-	-	11,684	10,456
plus Change in inventories		629	392	37	12	14	(7)	-	-	680	397
plus Other movements in non-financial assets		(28)	27	(4)	2	-	-	1	-	(31)	29
Total net acquisition of non-financial assets		1,286	2,877	5,437	5,776	(4)	45	2	-	6,721	8,698
Fiscal balance (Net lending/borrowing)		(5,442)	(35,236)	(9,809)	(9,786)	1,047	932	(896)	(1,493)	(15,100)	(45,583)

(a) The eliminations and netting column includes the elimination of inter-sector transactions and the netting of gains and losses across sectors.
(b) General Government operating result includes \$4 million attributable to minority interests.

Certain comparatives have been restated. Refer to Note 1.5 for further details.

Australian Government balance sheet by sector — including General Government Sector Financial Report
as at 30 June 2018

	Note	General Government		Public non-financial corporations		Public financial corporations		Eliminations(a)		Australian Government	
		2018 \$m	2017 \$m	2018 \$m	2017 \$m	2018 \$m	2017 \$m	2018 \$m	2017 \$m	2018 \$m	2017 \$m
Assets											
<i>Financial assets</i>											
Cash and deposits		6,780	5,140	1,973	2,184	636	520	(3,147)	(1,561)	6,242	6,283
Advances paid	5A	56,058	44,918	15	12	2,037	2,245	(6,345)	(1,082)	51,765	46,093
Other receivables and accrued revenue	5A	49,860	46,144	1,886	1,579	71	67	(1,121)	(1,640)	50,696	46,150
Investments, loans and placements	5B	190,612	193,252	1,139	733	187,750	195,326	(52,678)	(68,433)	326,823	320,878
Equity investments	5C	112,490	92,413	376	403	464	416	(55,338)	(46,671)	57,992	46,561
Total financial assets		415,800	381,867	5,389	4,911	190,958	198,574	(118,629)	(119,387)	493,518	465,965
<i>Non-financial assets</i>											
Land	5D	11,598	11,002	1,535	1,033	183	203	-	(1)	13,316	12,237
Buildings	5D	26,322	25,692	2,376	2,015	375	405	-	-	29,073	28,112
Specialist military equipment	5D	62,020	58,573	-	-	-	-	-	-	62,020	58,573
Other plant, equipment and infrastructure	5D	15,533	15,013	38,975	27,262	181	200	-	-	54,689	42,475
Intangibles	5D	7,895	7,452	3,527	2,827	98	83	(1)	(2)	11,519	10,360
Investment property	5D	173	112	168	169	-	-	-	-	341	281
Inventories	5E	8,645	8,548	153	123	33	19	-	(1)	8,831	8,689
Heritage and cultural assets	5D	11,619	11,630	-	-	-	-	-	-	11,619	11,630
Tax assets		-	-	933	795	5	5	(938)	(800)	-	-
Other non-financial assets	5F	3,471	3,856	410	504	155	41	(93)	(121)	3,943	4,280
Total non-financial assets		147,276	141,878	48,077	34,728	1,030	956	(1,032)	(925)	195,351	176,637
Total assets	5G	563,076	523,745	53,466	39,639	191,988	199,530	(119,661)	(120,312)	688,869	642,602
Liabilities											
<i>Interest bearing liabilities</i>											
Deposits held	6A	381	218	9	6	81,675	92,890	(48,224)	(58,353)	33,841	34,761
Government securities	6B	575,450	547,254	-	-	-	-	(7,789)	(11,809)	567,661	535,445
Loans	6C	10,468	10,179	8,418	2,338	2,394	2,437	(6,099)	(854)	15,181	14,100
Other borrowings	6D	1,524	1,618	7,283	5,896	-	-	-	1	8,807	7,515
Other interest bearing liabilities	6E	7,589	6,359	166	8	3,005	4,518	-	-	10,760	10,885
Total interest bearing liabilities		595,412	565,628	15,876	8,248	87,074	99,845	(62,112)	(71,015)	636,250	602,706

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

Australian Government balance sheet by sector — including General Government Sector Financial Report (continued)
as at 30 June 2018

	Note	General Government		Public non-financial corporations		Public financial corporations		Eliminations(a)		Australian Government	
		2018 \$m	2017 \$m	2018 \$m	2017 \$m	2018 \$m	2017 \$m	2018 \$m	2017 \$m	2018 \$m	2017 \$m
Provisions and payables											
Superannuation liability	6F	313,495	279,459	25	20	393	320	-	-	313,913	279,799
Other employee liabilities	6F	19,829	18,134	1,686	1,714	199	211	-	(1)	21,714	20,058
Supplier payables	6G	7,547	6,938	4,319	4,127	123	119	(83)	(174)	11,906	11,010
Personal benefits payable	6G	2,758	2,451	-	-	-	-	-	-	2,758	2,451
Subsidies payable	6G	602	549	-	-	-	-	-	-	602	549
Grants payable	6G	3,068	3,922	-	-	-	-	-	2	3,068	3,924
Australian currency on issue	6H	-	-	-	-	75,565	73,623	-	-	75,565	73,623
Tax liabilities		-	-	786	655	1	-	(787)	(655)	-	-
Other payables	6G	2,424	3,792	657	591	1,026	1,411	(1,162)	(1,535)	2,945	4,259
Other provisions	6H	35,993	34,245	604	476	1,302	1,245	-	-	37,899	35,966
Total provisions and payables		385,716	349,490	8,077	7,583	78,609	76,929	(2,032)	(2,363)	470,370	437,639
Total liabilities		981,128	915,118	23,953	15,831	165,683	176,774	(64,144)	(73,378)	1,106,620	1,034,345
Net worth											
Accumulated results		(483,368)	(456,508)	(13,386)	(10,272)	41	89	(4,018)	(2,240)	(500,731)	(468,931)
Reserves		65,205	65,072	8,158	2,964	25,968	22,381	(16,462)	(13,292)	82,869	77,125
Contributed equity		-	-	34,741	31,116	296	286	(35,037)	(31,402)	-	-
Minority interests		111	63	-	-	-	-	-	-	111	63
Net worth		(418,052)	(391,373)	29,513	23,808	26,305	22,756	(55,517)	(46,934)	(417,751)	(391,743)

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

Certain comparatives have been restated. Refer to Note 1.5 for further details.

Australian Government cash flow statement by sector — including General Government Sector Financial Report
for the year ended 30 June 2018

	General Government		Public non-financial corporations		Public financial corporations		Eliminations and netting(a)		Australian Government	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
OPERATING ACTIVITIES										
Cash received										
Taxes received	418,053	379,271	-	-	-	-	(87)	(32)	417,966	379,239
Receipts from sales of goods and services	9,941	8,050	13,064	11,559	701	620	(2,349)	(2,047)	21,357	18,182
Interest receipts	3,434	2,925	47	53	2,284	1,965	(1,029)	(882)	4,736	4,061
Dividend receipts	5,407	6,874	-	-	9	79	(1,314)	(3,453)	4,102	3,500
GST receipts	-	-	720	650	14	26	(734)	(676)	-	-
Other receipts	8,745	10,466	34	85	284	157	(465)	(359)	8,598	10,349
Total cash received	445,580	407,586	13,865	12,347	3,292	2,847	(5,978)	(7,449)	456,759	415,331
Cash used										
Taxes paid	-	-	(94)	(10)	-	(1)	94	11	-	-
Payments for employees	(27,969)	(27,148)	(4,184)	(5,130)	(215)	(656)	-	-	(32,368)	(32,934)
Payments for goods and services	(99,130)	(93,508)	(9,210)	(7,708)	(425)	(358)	2,862	2,533	(105,903)	(99,041)
Grants and subsidies paid	(161,868)	(155,981)	-	1	-	-	225	263	(161,643)	(155,717)
Interest paid	(16,568)	(15,290)	(122)	(64)	(1,318)	(1,164)	1,065	1,103	(16,943)	(15,415)
Personal benefits paid	(127,940)	(130,828)	-	-	-	-	-	-	(127,940)	(130,828)
GST paid	-	-	(426)	(272)	(14)	(12)	440	284	-	-
Other payments	(6,425)	(5,483)	(1,032)	(39)	(76)	234	6	11	(7,527)	(5,277)
Total cash used	(439,900)	(428,238)	(15,068)	(13,222)	(2,048)	(1,957)	4,692	4,205	(452,324)	(439,212)
Net cash from operating activities	5,680	(20,652)	(1,203)	(875)	1,244	890	(1,286)	(3,244)	4,435	(23,881)
INVESTING ACTIVITIES										
Investments in non-financial assets										
Sales of non-financial assets	1,325	2,282	332	58	-	-	-	-	1,657	2,340
Purchases of non-financial assets	(12,705)	(11,079)	(7,091)	(6,153)	(52)	(107)	10	-	(19,838)	(17,339)
Net cash from non-financial assets	(11,380)	(8,797)	(6,759)	(6,095)	(52)	(107)	10	-	(18,181)	(14,999)

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

Australian Government cash flow statement by sector — including General Government Sector Financial Report (continued)
for the year ended 30 June 2018

	General Government		Public non-financial corporations		Public financial corporations		Eliminations and netting(a)		Australian Government	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
INVESTING ACTIVITIES										
Investments in financial assets for policy purposes										
Receipts from policy investments	5,265	3,614	33	-	268	125	(120)	(60)	5,446	3,679
Payments for policy investments	(25,306)	(17,115)	(4)	-	(237)	-	8,008	7,403	(17,539)	(9,712)
Net cash from policy investments	(20,041)	(13,501)	29	-	31	125	7,888	7,343	(12,093)	(6,033)
Investments in financial assets for liquidity purposes	(43)	(37,318)	144	13	9,217	(35,992)	(15,531)	35,990	(6,213)	(37,307)
Net cash from investing activities	(31,464)	(59,616)	(6,586)	(6,082)	9,196	(35,974)	(7,633)	43,333	(36,487)	(58,339)
FINANCING ACTIVITIES										
Cash flows from financing activities										
Net cash received										
Borrowings	30,564	84,908	5,382	301	(52)	-	(1,413)	(9,929)	34,481	75,280
Contributed equity	-	-	2,693	7,386	10	10	(2,703)	(7,396)	-	-
Other financing	2,696	365	23	30	(9,153)	38,640	10,129	(27,688)	3,695	11,347
Net cash received	33,260	85,273	8,098	7,717	(9,195)	38,650	6,013	(45,013)	38,176	86,627
Net cash used										
Distributions paid	-	(3)	(191)	(169)	(1,129)	(3,285)	1,320	3,454	-	(3)
Other financing	(5,836)	(3,500)	(329)	(965)	-	(174)	-	806	(6,165)	(3,833)
Net cash used	(5,836)	(3,503)	(520)	(1,134)	(1,129)	(3,459)	1,320	4,260	(6,165)	(3,836)
Net cash from financing activities	27,424	81,770	7,578	6,583	(10,324)	35,191	7,333	(40,753)	32,011	82,791
Net increase/(decrease) in cash	1,640	1,502	(211)	(374)	116	107	(1,586)	(664)	(41)	571
Cash at beginning of year	5,140	3,638	2,184	2,558	520	413	(1,561)	(897)	6,283	5,712
Cash at end of year	6,780	5,140	1,973	2,184	636	520	(3,147)	(1,561)	6,242	6,283
Key fiscal aggregate										
Net cash flows from operating activities	5,680	(20,652)	(1,203)	(875)	1,244	890	(1,286)	(3,244)	4,435	(23,881)
Net cash flows from investments in non-financial assets	(11,380)	(8,797)	(6,759)	(6,095)	(52)	(107)	10	-	(18,181)	(14,999)
Cash surplus/(deficit)	(5,700)	(29,449)	(7,962)	(6,970)	1,192	783	(1,276)	(3,244)	(13,746)	(38,880)

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

Certain comparatives have been restated. Refer to Note 1.5 for further details.

Australian Government statement of changes in equity (net worth) by sector
for the year ended 30 June 2018

Item	Reserves								Total Net Worth \$m
	Accumulated results \$m	Asset revaluation reserve \$m	Foreign currency translation reserve \$m	Investments reserve \$m	Statutory funds \$m	Other reserves \$m	Total reserves \$m	Contributed equity \$m	
General Government									
Adjusted opening balance as at 1 July 2016	(472,711)	42,749	34	16,637	-	40	59,460	-	(413,251)
Dividends provided for or paid	(3)	-	-	-	-	-	-	-	(3)
Comprehensive result - change in net worth	25,357	1,467	7	(4,951)	-	(2)	(3,479)	-	21,878
Transfers to/(from)/between reserves	(9,093)	(57)	-	9,150	-	-	9,093	-	-
Net worth as at 30 June 2017	(456,447)	44,159	41	20,836	-	38	65,074	-	(391,373)
less: Minority interests	61	-	-	2	-	-	2	-	63
Attributable to the General Government Sector at 30 June 2017	(456,508)	44,159	41	20,834	-	38	65,072	-	(391,436)
Non-material changes in accounting policy and errors									
Adjusted opening balance as at 1 July 2017	(456,364)	44,143	41	20,827	-	45	65,056	-	(391,308)
Dividends provided for or paid	(3)	-	-	-	-	-	-	-	(3)
Comprehensive result - change in net worth	(28,310)	2,448	13	(887)	-	(5)	1,569	-	(26,741)
Transfers to/(from)/between reserves	1,419	(4)	-	(1,447)	-	32	(1,419)	-	-
Net worth as at 30 June 2018	(483,258)	46,587	54	18,493	-	72	65,206	-	(418,052)
less: Minority interests	110	-	-	1	-	-	1	-	111
Attributable to the General Government Sector at 30 June 2018	(483,368)	46,587	54	18,492	-	72	65,205	-	(418,163)

Australian Government statement of changes in equity (net worth) by sector (continued)
for the year ended 30 June 2018

Item	Reserves								Total Net Worth \$m
	Accumulated results \$m	Asset revaluation reserve \$m	Foreign currency translation reserve \$m	Investments reserve \$m	Statutory funds \$m	Other reserves \$m	Total reserves \$m	Contributed equity \$m	
Public non-financial corporations									
Adjusted opening balance as at 1 July 2016	(6,561)	2,517	22	-	-	230	2,769	23,677	19,885
Comprehensive result - change in net worth	(3,505)	181	(20)	-	-	(4)	157	-	(3,348)
Dividends provided for or paid	(168)	-	-	-	-	-	-	-	(168)
Transfers to/(from)/between reserves	(38)	(2)	-	-	-	40	38	-	-
Contribution/(distribution) of equity	-	-	-	-	-	-	-	7,439	7,439
Net worth as at 30 June 2017	(10,272)	2,696	2	-	-	266	2,964	31,116	23,808
Non-material changes in accounting policy and errors									
Adjusted opening balance as at 1 July 2017	(10,274)	2,696	2	-	-	-	-	(29)	(31)
Comprehensive result - change in net worth	(2,941)	5,217	3	-	-	266	2,964	31,087	23,777
Dividends provided for or paid	(190)	-	-	-	-	(7)	5,213	817	3,089
Transfers to/(from)/between reserves	19	(8)	-	-	-	-	-	-	(190)
Contribution/(distribution) of equity	-	-	-	-	-	(11)	(19)	-	-
Net worth as at 30 June 2018	(13,386)	7,905	5	-	-	248	8,158	34,741	29,513

Australian Government statement of changes in equity (net worth) by sector (continued)

for the year ended 30 June 2018

Item	Reserves								Total Net Worth \$m
	Accumulated results \$m	Asset revaluation reserve \$m	Foreign currency translation reserve \$m	Investments reserve \$m	Statutory funds \$m	Other reserves \$m	Total reserves \$m	Contributed equity \$m	
Public financial corporations									
Adjusted opening balance as at 1 July 2016	(288)	5,138	-	-	14,119	5,565	24,822	276	24,810
Comprehensive result - change in net worth	(367)	(348)	-	-	-	-	(348)	-	(715)
Dividends provided for or paid	(1,349)	-	-	-	-	-	-	-	(1,349)
Transfers to/(from)/between reserves	2,093	(4)	-	-	-	(2,089)	(2,093)	-	-
Contribution/(distribution) of equity	-	-	-	-	-	-	-	10	10
Net worth as at 30 June 2017	89	4,786	-	-	14,119	3,476	22,381	286	22,756
Adjusted opening balance as at 1 July 2017	89	4,786	-	-	14,119	3,476	22,381	286	22,756
Comprehensive result - change in net worth	3,832	300	-	-	-	139	439	-	4,271
Dividends provided for or paid	(732)	-	-	-	-	-	-	-	(732)
Transfers to/(from)/between reserves	(3,148)	-	-	-	-	3,148	3,148	-	-
Contribution/(distribution) of equity	-	-	-	-	-	-	-	10	10
Net worth as at 30 June 2018	41	5,086	-	-	14,119	6,763	25,968	296	26,305

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

NOTES TO THE FINANCIAL STATEMENTS

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Note 1: Basis of financial statements preparation

1.1 Purpose

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

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

1.2 Statement of compliance

The Australian Government Consolidated Financial Statements (CFS) are required by section 48 of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act). The CFS are general purpose financial statements that have been prepared for the whole of government and the GGS in accordance with Australian Accounting Standards (AAS), including AASB 1049 *Whole of Government and General Government Sector Financial Reporting* (AASB 1049).

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

1.3 Basis of accounting

The CFS provides users with information about the stewardship by the Australian Government and accountability for the resources entrusted to it; information about the financial position, performance and cash flows of the Australian Government; and information that facilitates assessment of the macroeconomic impact.

The principles and rules in the Australian Bureau of Statistics *Australian System of Government Finance Statistics: Concepts, Sources and Methods 2015 – ABS Catalogue No. 5514.0* (ABS GFS Manual) have been applied in the production of these financial statements, except in instances in which their application would conflict with AAS.

The 2015 version of the ABS GFS Manual superseded the previous 2005 version effective from 1 July 2017. As a result of the adoption of the new ABS GFS Manual, the cash flow statement has been amended to remove the non-cash line item “Finance lease and similar arrangements” and the total “GFS cash surplus/(deficit)”.

Where the key fiscal aggregates presented on the face of the financial statements are materially different to those measured in accordance with the applied ABS GFS Manual, a reconciliation between the two measures has been provided (refer Note 13A). Note 13A also identifies those divergences that have been amended as a result of the new ABS GFS Manual.

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

1.4 New Australian Accounting Standards

Adoption of new Australian Accounting Standard requirements

During 2017-18, the Australian Government adopted all applicable accounting standards that became effective during the year. This did not materially impact the operations of the Australian Government. Note 8 includes a new disclosure to enable users of the CFS to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. This disclosure is consistent with changes to AASB 107 *Statement of Cash Flows*.

Future Australian Accounting Standards requirements

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

AASB 9 Financial Instruments (AASB 9)

Effective Date: 1 July 2018 (2018-19)

Nature of change: The Australian Government is required to adopt AASB 9 from 1 July 2018. AASB 9 incorporates new principles for the classification and measurement of financial assets and liabilities, and changes to general hedge accounting. AASB 9 contains three principal classification categories for financial assets: measured at 'amortised cost', 'fair value through other comprehensive income' (FVOCI) and 'fair value through profit and loss' (FVTPL). The standard removes the existing AASB 139 *Financial Instruments: Recognition and Measurement* categories of 'held to maturity', 'loans and receivables' and 'available for sale'. Revised requirements also apply to the recognition of impairment losses on financial instruments, requiring the recognition of expected credit losses on the initial recognition of a financial asset, rather than loss recognition after a loss event has occurred. The new standard also includes revised hedging requirements.

Likely impact on initial application: Australian Government entities are continuing to assess the estimated impact that the initial application of AASB 9 will have on Australian Government financial statements. The information provided below is based on assessments undertaken to date. The actual impacts of adopting AASB 9 as at 1 July 2018 may change as entities finalise their assessments and prepare their systems and processes for the new standard.

Based on assessments undertaken to date, the change in classification of financial assets is not expected to have a material impact on net worth at 1 July 2018 as:

- Advances paid and receivables of \$43,076 million and investments, loans and placements of \$173,724 million are currently carried at FVTPL (refer Note 5A and Note 5B). This includes \$40,948 million in student loans and \$170,942 million in debt securities held by the Reserve Bank of Australia (RBA), the Future Fund Management Agency (Future Fund) and investment funds. Based on the nature of these assets and the business model adopted, it is expected that the FVTPL classification will be retained under AASB 9 with no impact on net worth.

- In addition to the above financial assets at FVTPL, the Australian Government currently categorises advances paid and receivables of \$16,254 million and investments, loans and placements of \$129,706 million at amortised cost in the "loans and receivables" category under AASB 139 (refer Note 5A and Note 5B). This includes \$98,113 million in securities held and sold by the RBA under repurchase agreements at 30 June 2018 which will continue to be measured at amortised cost under AASB 9 with no change to net worth.

The primary expected changes in classification, from amortised cost to fair value categories or vice versa, are in the following items:

- Loans and investments held by the Clean Energy Finance Corporation (CEFC) and Export Finance Insurance Corporation (EFIC) have been assessed against AASB 9 with a change in classification expected between loans and receivables (amortised cost), FVOCI and FVTPL. However, the impact on net worth has been assessed as immaterial.
- Concessional loans held for policy purposes and currently categorised as 'loans and receivables' are being assessed against the 'Solely Payments of Principle and Interest' (SPPI) criteria under AASB 9. Where the loans do not meet the SPPI criteria, the loans will be reclassified to FVTPL which may result in an immaterial change to net worth as at 1 July 2018.
- In the General Government Sector, FVTPL investments include \$45,140 million in deposits held for liquidity purposes by the Australian Office of Financial Management (AOFM). These deposits (which are held with the RBA) will be reclassified from FVTPL under AASB 139 to 'amortised cost' under AASB 9 to reflect the nature of the assets. The impact on net worth is expected to be minor (estimated at approximately \$4 million).

For impairment assessments completed to date, while the new standard will result in earlier recognition, the impact on net worth has not been assessed as material. Assessments are still being undertaken and this may change once the assessment of concessional and other loans is complete. Under the government accounting standard AASB 1049, expected credit losses will be recognised in the operating statement in other economic flows.

The revised hedge accounting requirements are not expected to have a material impact on the CFS on adoption. As a result, the Australian Government will not apply the requirements of AASB 9 to the comparative 2017-18 period presented.

AASB 15 Revenue from Contracts with Customers (AASB 15) and AASB 1058 Income of Not-for-Profit Entities (AASB 1058)

Effective Date: 1 July 2019 (2019-20)

Nature of change: AASB 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including AASB 118 *Revenue*, AASB 111 *Construction Contracts* and Interpretation 13 *Customer Loyalty Programmes*. The core principle of AASB 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The AASB has also released AASB 2016-8 Amendments to *Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities* and has added an appendix to AASB 15 to explain its application to not-for-profit entities, including the Australian Government.

AASB 1058 will be relevant to the Australian Government in circumstances where AASB 15 does not apply. AASB 1058 will apply to transactions where the consideration to acquire an asset is significantly less than fair value principally to enable the Australian Government entity to further its objectives, and where volunteer services are received.

Likely impact on initial application: The impact of adopting AASB 15 and AASB 1058 is still being assessed. The Australian Government plans to adopt AASB 15 using the cumulative effect method, with the effect of initially applying this standard recognised at the date of initial application (1 July 2019). As a result, the Australian Government will not apply the requirements of AASB 15 to the comparative 2018-19 period presented.

AASB 16 Leases (AASB 16)

Effective Date: 1 July 2019 (2019-20)

Nature of change: AASB 16 replaces existing leases guidance, including AASB 117 *Leases*, Interpretation 4 *Determining whether an Arrangement contains a Lease*, Interpretation 115 *Operating Leases – Incentives* and Interpretation 127 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

AASB 16 introduces a single lease accounting model for lessees replacing the previous distinction between ‘operating’ and ‘finance’ leases. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. On transition to AASB 16, the Australian Government expects that it will elect not to reassess previous contracts nor to restate comparatives.

Likely impact on initial application: The adoption of AASB 16 is expected to materially impact the CFS.

Australian Government entities are in the process of assessing the potential impact of AASB 16 but have not completed detailed assessments. The actual impact of applying AASB 16 will depend on future economic conditions, including the Australian Government's borrowing rate at 1 July 2019, the composition of the lease portfolio at that date, and the extent to which practical expedients and recognition exemptions are applied.

To date, the most significant impact identified is that the Australian Government will recognise new assets and liabilities for its operating leases. As at 30 June 2018, the Australian Government's future minimum lease payments under non-cancellable operating leases amounted to \$20,801 million on an undiscounted basis (see Note 3C). In addition, the nature of expenses related to those leases will now change as AASB 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities.

AASB 1059 Service Concession Arrangements (AASB 1059)

Effective Date: 1 July 2019 (2019-20), noting that the effective date is currently under consideration by the AASB.

Nature of change: Service concession arrangements involve a private sector entity operating a service concession asset to deliver public services on behalf of a public sector grantor. AASB 1059 will require service concession assets to be recognised immediately at the start of the arrangement, with a corresponding liability to reflect any payments due, and/or the grant of a right, to the operator.

Likely impact on initial application: The adoption of AASB 1059 may result in an increase in assets and liabilities recognised on the balance sheet. AASB 1059 may also impact the operating statement depreciation and amortisation expenses and income from the amortisation of grant of right liability. The impact of adopting AASB 1059 is still being assessed.

1.5 Prior year adjustments

The 2016-17 comparatives have been restated to account for the following:

- **Taxation adjustments** - For the 2016-17 financial year, adjustments were made to taxation receivables, payables and revenue for errors identified in the reconciliation of the Australian Taxation Office's (ATO) business systems and accounting system. Adjustments were also required as a result of errors in the calculation of the provision for taxation credit amendments. Adjustments have been made to the 2016-17 comparatives as per adjustment (a) in the table below. Greater detail is provided in the ATO's 2017-18 financial statements.
- **Personal benefit claims in progress** - At any point in time, there are claims for personal benefits payments that have been submitted and are in the process of being assessed. While some of these claims are granted, others are determined not to be eligible for payment. Under current legislation, individuals may be eligible for payment from the date their claim was submitted (the date of effect). Adjustments have been made to the 2016-17 comparatives to recognise a provision for the estimated liability for claims with a date of effect prior to the reporting date that have not been fully assessed as at that date. Refer adjustment (b) in the table below.

- Equity interest in Snowy Hydro Limited (SHL) - As disclosed in Note 9, the Australian Government obtained full control of SHL on 29 June 2018. Prior to that date, the Australian Government held a 13 per cent equity interest in SHL, with SHL equity accounted as an associate under AASB 128 *Investments in Associates and Joint Ventures*. Equity accounting requires the investor to recognise their share of the investee's net assets as an investment at the reporting date. Previously, the Australian Government was reporting an equity investment based on 13 per cent of SHL's net assets as reported in the SHL financial statements. SHL reports property, plant and equipment at historical cost. The 2016-17 comparatives have been updated to measure the investment based on a fair value measurement of SHL's property, plant and equipment. Refer adjustment (c) in the table below.
- WestConnex concessional loan - During 2017-18, the Department of Infrastructure, Regional Development and Cities changed its accounting policy with respect to commitments to provide a loan at a below-market interest rate under AASB 139 *Financial Instruments: Recognition and Measurement*. The change in policy arose from a review of accounting arrangements associated with the transition to AASB 9 *Financial Instruments* and improved certainty and experience in the WestConnex concessional loan payment forecasts. Under the new policy, a provision and concessional loan expense are recognised at the time the Government enters into an agreement to provide a loan at a below-market interest rate, unless the cash flows and/or the prevailing market interest rate cannot be reliably estimated. Previously, concessional loan expenses were recognised at the time each advance was paid. The impact of this change on the comparatives is shown in adjustment (d) in the table below.

The following material reclassifications have been made to the 2016-17 comparatives to ensure consistency with current year reporting (reclassifications within a note or financial statement category are not shown):

- The Australian Government's obligation in relation to the long service leave entitlements of eligible employees of the black coal mining industry has been reclassified from employee provisions to other provisions (\$1,245 million at 30 June 2017).
- Indirect personal benefits payable have been reclassified from personal benefits payable to suppliers payable consistent with the disclosure of these items in the statement of comprehensive income (\$659 million at 30 June 2017).
- Personal benefits for childcare expenses were previously split between personal benefits expenses and supply of goods and services expenses within programs. The child care rebate is now fully classified as a supplier expense (indirect personal benefit) and the child care benefit a direct personal benefit. This has resulted in a comparative reclassification of \$1,549 million.
- The Australian Government subscription to the International Development Association and Asian Development Fund has been reclassified from advances paid to equity investments in line with the adoption of the new ABS GFS Manual (\$1,896 million at 30 June 2017).

The net impact of the above restatements and reclassifications on the Australian Government Consolidated Financial Statements are shown in the following table. With the exception of the reclassification of coal mining long service leave entitlements the above adjustments have also been made to the General Government Sector Statements. The totals shown below do not agree to the sum of individual line items as only impacted financial statements categories have been shown.

		2017	Adjustment				Reclassi-	Restated
	Note	\$m	(a)	(b)	(c)	(d)	fications	2017
			\$m	\$m	\$m	\$m	\$m	\$m
Revenue from transactions								
Taxation revenue	2A	388,568	(272)	-	-	-	-	388,296
Total revenue		425,468	(272)	-	-	-	-	425,196
Expenses from transactions								
<i>Gross operating expenses</i>								
Supply of goods and services	3C	99,060	-	-	-	-	1,549	100,609
<i>Total gross operating expenses</i>		<i>149,987</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>1,549</i>	<i>151,536</i>
Interest expense	3D	17,652	-	-	-	(99)	-	17,553
<i>Current transfers</i>								
Personal benefits		129,596	-	103	-	-	(1,549)	128,150
<i>Total current transfers</i>		<i>274,762</i>	<i>-</i>	<i>103</i>	<i>-</i>	<i>-</i>	<i>(1,549)</i>	<i>273,316</i>
Total expenses	3F	462,077	-	103	-	(99)	-	462,081
Net operating balance		(36,609)	(272)	(103)	-	99	-	(36,885)
Other economic flows - included in operating result								
Net other gains/(losses)	4C	141	-	-	81	-	-	222
Operating result		(25,320)	(272)	(103)	81	99	-	(25,515)
Other economic flows - other non-owner movements in equity								
Revaluation of equity investments	7	(106)	-	-	165	-	-	59
Comprehensive result - total change in net worth		22,082	(272)	(103)	246	99	-	22,052
Assets								
Advances paid	5A	47,989	-	-	-	-	(1,896)	46,093
Other receivables and accrued revenue	5A	46,705	(555)	-	-	-	-	46,150
Equity investments	5C	44,138	-	-	527	-	1,896	46,561
<i>Total financial assets</i>		<i>465,993</i>	<i>(555)</i>	<i>-</i>	<i>527</i>	<i>-</i>	<i>-</i>	<i>465,965</i>
Total assets		642,630	(555)	-	527	-	-	642,602
Liabilities								
<i>Provisions and payables</i>								
Other employee liabilities	6F	21,303	-	-	-	-	(1,245)	20,058
Suppliers payable	6G	10,351	-	-	-	-	659	11,010
Personal benefits payable	6G	3,086	24	-	-	-	(659)	2,451
Other payables	6G	4,049	(3)	-	-	213	-	4,259
Other provisions	6H	34,505	-	216	-	-	1,245	35,966
<i>Total provisions and payables</i>		<i>431,189</i>	<i>21</i>	<i>216</i>	<i>-</i>	<i>213</i>	<i>-</i>	<i>431,639</i>
Total liabilities		1,033,895	21	216	-	213	-	1,034,345
Net worth								
Opening Balance as at 1 July 2016		(413,347)	(304)	(113)	281	(312)	-	(413,795)
Comprehensive result - change in net worth		22,082	(272)	(103)	246	99	-	22,052
Net worth		(391,265)	(576)	(216)	527	(213)	-	(391,743)

1.6 The reporting entity and basis of consolidation

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

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

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

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

1.7 Business Combinations

Business combinations are accounted for using the acquisition method. The consideration transferred to obtain control of an acquiree in a business combination is measured at fair value, and consists of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree and the equity interests issued by the acquirer. At acquisition date, the identifiable assets acquired and liabilities assumed are recognised at their fair value, except that deferred tax assets and liabilities continue to be measured in accordance with AASB 112 *Incomes Taxes* and employee benefits continue to be measured in accordance with AASB 119 *Employee Benefits*.

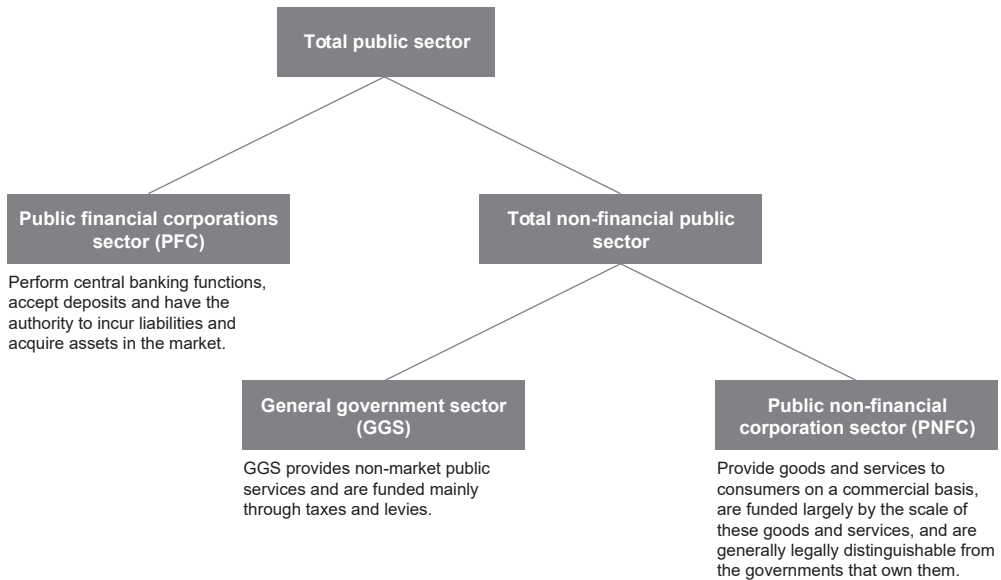
In cases where the sum of the consideration transferred plus the fair value of any previous equity interests exceeds the net value of identifiable assets and liabilities at the acquisition date, goodwill is measured as the excess amount. In cases where a business combination is achieved in stages, any previously held equity interest is required to be re-measured at acquisition, and any resultant gain or loss to be recognised in other comprehensive income.

In 2017-18, the Australian Government acquired a controlling interest in SHL, the details of which are disclosed in Note 9.

1.8 Sectors

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

Figure 1: Institutional structure of the public sector



1.9 Significant accounting judgements and estimates

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

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

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

Judgements and estimates made by Australian Government entities that have the most significant impact on the amounts recorded in these financial statements include:

Significant accounting estimate / judgement	Note
Taxation revenue items reported under the Economic Transactions Method	2A
Impairment — key assumptions and methodologies used to estimate the recoverability of accounts receivable, statutory debts and inventory	4A
Fair value — assumptions used in valuation techniques for the fair value of financial assets and liabilities, including derivatives	5, 6
Fair value and impairment test — key assumptions underlying recoverable amount and valuations of land, property, plant and equipment and infrastructure	5D
Measurement of defined benefit obligations — principal actuarial assumptions	6F, 10C
Recognition and measurement of provisions and contingencies — key assumptions about the likelihood and magnitude of an outflow or inflow of resources	6H, 10A

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

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

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

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

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

The following table summarises the inputs used by entities.

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

1.10 Insurance

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

1.11 Rounding

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

1.12 Compliance with the Commonwealth of Australia Constitution Act

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

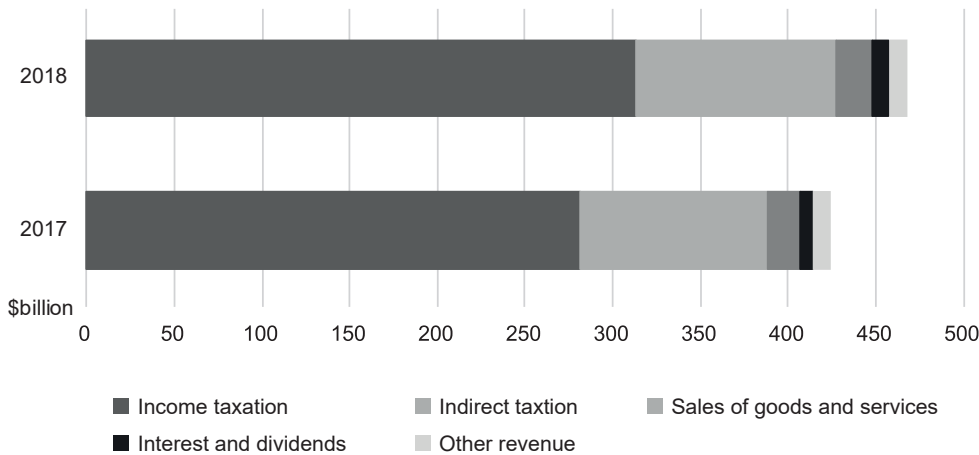
Australian Government entities monitor their level of compliance with Section 83 of the Constitution across all legislation for which they have legislative responsibility. If an entity identified a potential or actual Section 83 breach during the reporting period, the details have been disclosed in the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

In 2017-18, 916 actual breaches of Section 83 were identified across seven Commonwealth entities, with a total value of \$1.3 million (2016-17: 839 breaches with a total value of \$3.4 million).

Note 2: Revenue from transactions

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

Revenue composition



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

Note 2A: Taxation revenue

	General Government		Australian Government	
	2018 \$m	2017 \$m	2018 \$m	2017 \$m
Income taxation				
Individuals and other withholding taxes				
Gross income tax withholding	193,809	180,601	193,809	180,601
Gross other individuals	46,645	45,131	46,645	45,131
/less Refunds	(29,102)	(28,364)	(29,102)	(28,364)
Total individuals and other withholding taxation	211,352	197,368	211,352	197,368
Fringe benefits tax	3,813	3,905	3,813	3,905
Company tax	85,735	70,925	85,729	70,852
Superannuation funds	10,927	8,228	10,927	8,228
Resource rent taxes	993	976	993	976
Total income taxation revenue	312,820	281,402	312,814	281,329
Indirect taxation				
Sales taxes				
Goods and services tax	65,282	62,721	65,282	62,721
Wine equalisation tax	903	850	903	850
Luxury car tax	735	674	735	674
Total sales taxes	66,920	64,245	66,920	64,245
Excise duty revenue(a)	22,763	21,895	22,763	21,895
Customs duty revenue(a)	15,691	14,196	15,691	14,196
Other indirect taxation				
Agricultural levies	564	554	564	554
Other taxes	8,487	6,077	8,487	6,077
Total other indirect taxation revenue	9,051	6,631	9,051	6,631
Mirror taxes	568	543	568	543
/less Transfers to States in relation to mirror tax revenue	(568)	(543)	(568)	(543)
Mirror tax revenue	-	-	-	-
Total indirect taxation revenue	114,425	106,967	114,425	106,967
Total taxation revenue	427,245	388,369	427,239	388,296

(a) The 2017-18 Final Budget Outcome provides a disaggregation of excise and customs duty revenue by duty type.

Taxation revenue

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

- **Economic Transactions Method (ETM)** – Revenue is recognised when the Government, through the application of legislation to taxation and other relevant activities, gains control over the future economic benefits that arise from taxes and other statutory charges. Where a taxation revenue is able to be measured reliably (even in cases where the transactions are yet to occur, but are likely to be reported) the ETM method is used to recognise revenue.
- **Taxation Liability Method (TLM)** – Revenue is recognised at the earlier of when an assessment of a tax liability is made, or payment is received. Furthermore, revenue is recognised when there is sufficient information to raise an assessment, but an event has occurred which delays the issue of the assessment. This method is permitted when there is an 'inability to reliably measure taxes when the underlying transactions or events occur'. Revenue recognised under this policy is generally measured at a later time than would be the case if it were measured under ETM.

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

Type of taxation revenue	Method	Basis of revenue recognition
Income tax – individuals	TLM	Comprise income tax withholding (ITW), other individuals, Medicare levy and income tax refunds. ITW represents amounts withheld from payments of remuneration for the year. Other individuals revenue includes income tax instalments and final tax returns received during the year. Other individuals revenue and income tax refunds do not incorporate an estimate of the tax to be paid or refunded on the final assessment for the year.
Income tax – companies	TLM	Comprise amounts of tax payable by companies that relate to instalments and final payments received/raised for current and former periods. It does not include estimates of revenue related to the reporting year that will be recognised in annual income tax returns lodged after the reporting date.
Income tax – superannuation funds	TLM	Superannuation contributions tax is levied on superannuation funds based on contributions made by employers. Superannuation fund tax revenue comprise amounts of tax payable by superannuation funds that relate to instalments and payments for current and former reporting years. It does not include estimates of revenue related to the reporting year that will be recognised in annual income tax returns lodged after the reporting date.

Type of taxation revenue	Method	Basis of revenue recognition
Petroleum resource rent tax (Resource rent taxes)	ETM	Recognised based on the actual and estimated taxable profits in respect to offshore petroleum projects excluding some of the North-West Shelf production and associated exploration areas, which are subject to excise (included in excise on petroleum and other fuel products) and royalties.
Goods and services tax (GST)	ETM	Recognised based on the actual liabilities raised during the year and includes an estimate of amounts outstanding that relate to transactions occurring in the reporting period.
Excise duty	ETM	Recognised based on the actual and estimated duty payable. Excise duty becomes payable when certain goods are distributed for home consumption during the reporting period.
Customs duty	ETM	Recognised when imported goods are distributed for home consumption.
Luxury car tax	ETM	Recognised at the time the sale (or private import) of a luxury vehicle occurs within the reporting period and includes an estimate of amounts outstanding that relate to transactions occurring in the reporting period.
Wine equalisation tax	ETM	Recognised when an assessable dealing occurs within the reporting period giving rise to a tax liability and includes an estimate of amounts outstanding that relate to transactions occurring in the reporting period.
Fringe benefits tax (FBT)	ETM	Recognised on fringe benefits provided by employers to employees during the reporting period and includes an estimate of outstanding instalments and balancing payments for the annual FBT return.

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

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

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

Note 2B: Sales of goods and services

	General Government		Australian Government	
	2018 \$m	2017 \$m	2018 \$m	2017 \$m
Sales of goods	1,386	1,461	1,776	1,860
Rendering of services	6,844	5,225	17,733	14,939
Operating lease rental	146	112	211	173
Other fees from regulatory services	1,394	1,432	1,394	1,432
Total sales of goods and services revenue	9,770	8,230	21,114	18,404

Sales of goods and services

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

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

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

Note 2C: Interest and dividend income

	General Government		Australian Government	
	2018 \$m	2017 \$m	2018 \$m	2017 \$m
Interest from other governments				
State and territory debt	55	51	55	51
Housing agreements	103	107	103	107
General purpose advances	-	-	121	106
Total interest from other governments	158	158	279	264
Interest from other sources				
Indexation of HELP receivable and other student loans	567	505	567	505
Securities	1,123	1,163	1,144	1,182
Advances, deposits and other	1,469	1,166	2,784	2,194
Total interest from other sources	3,159	2,834	4,495	3,881
Total interest	3,317	2,992	4,774	4,145
Dividends				
Dividends from other public sector entities	973	1,575	-	-
Other dividends	4,113	3,423	4,247	3,556
Total dividends	5,086	4,998	4,247	3,556
Total interest and dividend income	8,403	7,990	9,021	7,701

Interest and dividend income

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

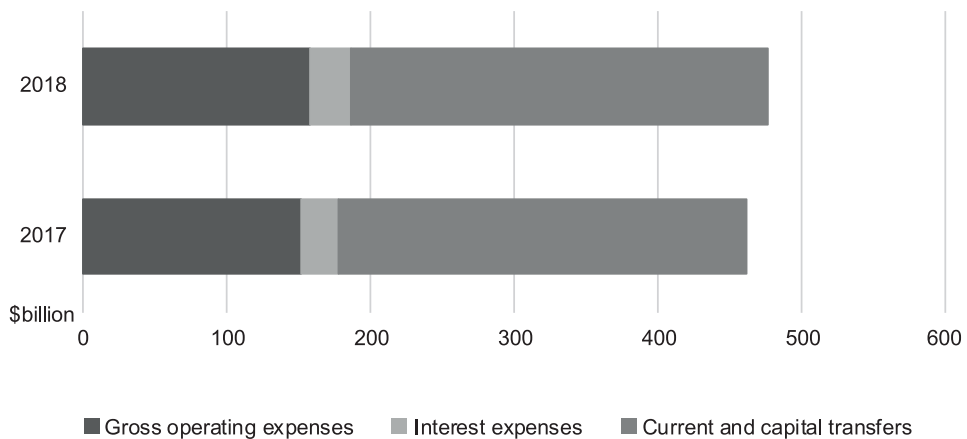
Note 2D: Other sources of non-taxation revenue

	General Government		Australian Government	
	2018 \$m	2017 \$m	2018 \$m	2017 \$m
Royalties	1,101	992	1,101	992
Seigniorage	89	107	89	107
Child support payments	1,576	1,543	1,576	1,543
Loan fees	169	276	169	276
PBS drug recoveries	2,359	3,268	2,359	3,268
Other	5,409	4,677	5,193	4,609
Total other sources of non-taxation revenue	10,703	10,863	10,487	10,795

Note 3: Expenses from transactions

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

Expense composition



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

Note 3A: Employee and superannuation expenses

	General Government		Australian Government	
	2018 \$m	2017 \$m	2018 \$m	2017 \$m
Wages and salaries expenses	19,213	19,059	23,570	23,322
Other operating expenses				
Leave and other entitlements	3,023	2,421	3,490	3,018
Separations and redundancies	287	292	323	366
Workers compensation premiums and claims	1,117	934	1,161	997
Allowances, FBT and other	2,294	2,259	2,379	2,337
Total other operating expenses	6,721	5,906	7,353	6,718
Superannuation expenses				
Superannuation	7,789	9,831	8,357	10,431
Superannuation interest	9,240	8,445	9,240	8,445
Total superannuation expenses	17,029	18,276	17,597	18,876
Total employee and superannuation expenses(a)	42,963	43,241	48,520	48,916

(a) Employee benefits accounting policies are disclosed in Note 6F and superannuation is disclosed in Note 10C.

Note 3B: Depreciation and amortisation expenses

	General Government		Australian Government	
	2018 \$m	2017 \$m	2018 \$m	2017 \$m
Depreciation				
Specialist military equipment	4,448	4,046	4,448	4,046
Buildings	1,483	1,497	1,642	1,657
Other plant, equipment and infrastructure	1,685	1,551	3,659	2,999
Heritage and cultural assets	96	100	96	100
Total depreciation	7,712	7,194	9,845	8,802
Total amortisation	1,165	1,096	1,952	1,757
Add back Amortisation of non-produced assets	(87)	(76)	(113)	(103)
Total depreciation and amortisation expense	8,790	8,214	11,684	10,456

Depreciation

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

Given the breadth of government operations there is a significant range in the remaining useful lives of Australian Government assets as shown below.

	2018	2017
Buildings	1-200 years	1-200 years
Specialist military equipment	1-48 years	1-48 years
Other plant, equipment and infrastructure	1-400 years	1-115 years
Heritage and cultural assets	1-5,000 years	1-5,000 years

Amortisation

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

	2018	2017
Computer software	1-26 years	1-26 years
Other intangibles(a)	1-100 years	1-100 years

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

Note 3C: Supply of goods and services

	General Government		Australian Government	
	2018 \$m	2017 \$m	2018 \$m	2017 \$m
Supply of goods and services	29,884	29,322	36,280	34,841
Operating lease rental expenses	2,524	2,496	2,804	2,768
Health care payments	4,616	4,833	4,616	4,833
Benefits to households in goods and services	60,763	55,589	60,763	55,589
Other	2,681	2,347	2,899	2,578
Total payment for supply of goods and services	100,468	94,587	107,362	100,609

Supply of goods and services

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

Operating leases

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

Operating lease commitments

Operating lease commitments include the following types of leasing arrangements:

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

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

	General Government		Australian Government	
	2018 \$m	2017 \$m	2018 \$m	2017 \$m
Leasing commitments				
Within 1 year	2,835	2,787	3,172	3,114
Between 1 to 5 years	8,224	9,088	9,174	9,850
More than 5 years	7,292	6,309	8,455	7,195
Total lease commitments	18,351	18,184	20,801	20,159

Subleases

Within the Australian Government, the majority of sublease commitments involve property arrangements between controlled entities. Some entities also sublease to external parties, with the largest including commercial, industrial and retail sites subleased by Australia Post (2018: \$154 million; 2017: \$170 million) and facilities and diplomatic land subleased by the National Capital Authority in Canberra (2018: \$69 million; 2017: \$71 million).

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

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

Note 3D: Interest expense

	General Government		Australian Government	
	2018 \$m	2017 \$m	2018 \$m	2017 \$m
Interest on debt				
Government securities	16,996	16,029	16,996	15,576
Taxation overpayments	105	162	105	162
Exchange settlement funds	-	-	408	384
Other	62	38	301	293
Total interest on debt	17,163	16,229	17,810	16,415
Other financing costs				
Discount on concessional instruments	226	469	226	469
Unwinding of provisions and other	318	154	321	160
Finance charges for finance leases	104	108	639	509
Total other financing costs	648	731	1,186	1,138
Total interest expense	17,811	16,960	18,996	17,553

Interest expense

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

Note 3E: Grants expense

	General Government		Australian Government	
	2018 \$m	2017 \$m	2018 \$m	2017 \$m
Current grants expense				
State and territory governments(a)	111,208	106,351	111,208	106,351
Private sector	8,319	8,292	8,319	8,292
Overseas	3,543	4,127	3,543	4,127
Non-profit organisations	4,600	3,950	4,600	3,950
Multi-jurisdictional sector	10,350	10,164	10,350	10,164
Other	1,262	1,430	1,266	1,429
Total current grants expense	139,282	134,314	139,286	134,313
Capital grants expense				
Mutually agreed write-downs	1,996	1,203	1,996	1,203
<i>Other capital grants expense</i>				
State and territory governments(a)	8,381	8,551	8,381	8,551
Local governments	690	779	690	779
Non-profit organisations	674	431	674	431
Private sector	190	252	190	252
Other	662	127	245	15
<i>Total other capital grants expense</i>	10,597	10,140	10,180	10,028
Total capital grants expense	12,593	11,343	12,176	11,231
Total grants expense	151,875	145,657	151,462	145,544

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

Current and capital transfers (grants)

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

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

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

The 2017-18 Final Budget Outcome provides a disaggregation of current and capital grants to state and territory governments, and local governments, by jurisdiction.

Note 3F: Expenses by function

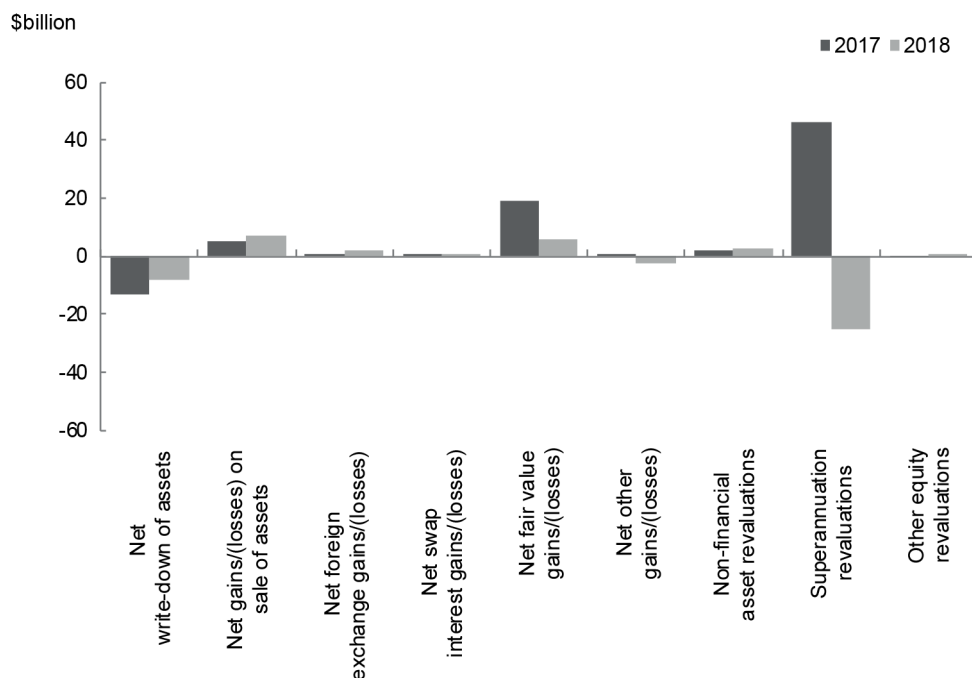
	General Government		Australian Government	
	2018 \$m	2017 \$m	2018 \$m	2017 \$m
General public services	24,521	26,200	25,404	27,042
Defence	29,288	28,141	29,376	28,229
Public order and safety	5,345	5,155	5,342	5,152
Education	33,523	32,591	33,522	32,591
Health	76,039	74,420	76,158	74,534
Social security and welfare	157,745	153,164	157,560	152,976
Housing and community amenities	5,405	4,626	5,404	4,626
Recreation and culture	3,735	3,613	3,735	3,613
Fuel and energy	7,378	6,722	7,381	6,722
Agriculture, forestry and fishing	2,613	2,607	2,613	2,607
Mining, manufacturing and construction	2,592	3,249	2,686	3,350
Transport and communication	9,180	9,312	24,047	22,816
Other economic affairs	9,861	9,301	9,955	9,556
Other purposes	93,052	88,710	93,057	88,267
Total expenses	460,277	447,811	476,240	462,081

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

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

Note 4: Other economic flows

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



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

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

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

	General Government		Australian Government	
	2018 \$m	2017 \$m	2018 \$m	2017 \$m
Financial Assets				
Receivables - bad and doubtful debts				
Goods and services	156	181	156	187
Taxes due	5,430	5,489	5,430	5,489
Other	976	510	976	510
Total receivables - bad and doubtful debts	6,562	6,180	6,562	6,186
Net impact on investments and other financial assets	490	5,984	535	5,989
Total financial write-down and impairment	7,052	12,164	7,097	12,175
Non-Financial Assets				
Inventories	500	411	506	418
Land	3	344	3	344
Buildings	46	37	46	37
Specialist military equipment	361	293	361	293
Other infrastructure, plant and equipment	70	60	111	72
Heritage and cultural assets	1	1	1	1
Intangibles	75	77	114	80
Net write-down, impairment and fair value losses arising from the revaluation of non-financial assets	1,056	1,223	1,142	1,245
Total net write-down and impairment of assets and fair value losses	8,108	13,387	8,239	13,420

Impairment of taxes due

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

Revaluation and impairment of investments and other financial assets

Includes changes in the fair value of the Higher Education Loan Program and other financial assets held at fair value through profit and loss.

Impairment of non-financial assets

Non-financial assets were assessed for impairment at 30 June 2018. Where indications of impairment exist, the asset's recoverable amount is estimated and an impairment adjustment made if the asset's recoverable amount is less than its carrying amount. The recoverable amount of an asset is the higher of its fair value less cost to sell and its value in use. Where an asset is held for continuing use and not primarily for its ability to generate net cash flows, its value in use is taken to be its current replacement cost (CRC).

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

	General Government		Australian Government	
	2018 \$m	2017 \$m	2018 \$m	2017 \$m
Financial Assets				
Net gains/(losses) from sale of investments	4,315	4,990	4,056	4,423
Non-Financial Assets				
Proceeds from sale of non-financial assets	4,258	874	4,432	939
less selling costs	(11)	(16)	(11)	(16)
less written down value of assets sold	(1,096)	(349)	(1,268)	(395)
Net gains/(losses) - non-financial assets	3,151	509	3,153	528
Net gains/(losses) from sale of assets	7,466	5,499	7,209	4,951
Add back selling costs included in expenses	11	16	11	16
Net gains/(losses) from sale of assets in other economic flows	7,477	5,515	7,220	4,967

Note 4C: Other gains/(losses)

	General Government		Australian Government	
	2018 \$m	2017 \$m	2018 \$m	2017 \$m
Foreign exchange				
Net foreign exchange gains/(losses)	(1,269)	1,439	1,982	149
Net foreign exchange gains/(losses)	(1,269)	1,439	1,982	149
Interest on derivatives				
Net swap interest revenue	2,473	320	2,558	397
Net swap interest expense	(2,412)	(222)	(2,469)	(275)
Net interest on derivatives	61	98	89	122
Fair value through profit or loss				
Net fair value gains - financial instruments	5,812	19,158	5,869	19,219
Net fair value gains - biological assets	(1)	16	(1)	16
Net fair value gains - investment properties	8	2	8	95
Net fair value gains/(losses)	5,819	19,176	5,876	19,330
Other				
Net repurchase premia	(524)	(414)	(524)	(414)
Net actuarial gains/(losses)	(2,183)	443	(2,378)	443
Amortisation of non-produced assets	(87)	(76)	(113)	(103)
Net result from associates and joint ventures	195	42	201	48
Other	124	235	178	248
Net other gains/(losses)	(2,475)	230	(2,636)	222
Total other gains/(losses)	2,136	20,943	5,311	19,823

Foreign currency translation

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

Swap interest

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

Fair value through profit or loss

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

Other gains/(losses)

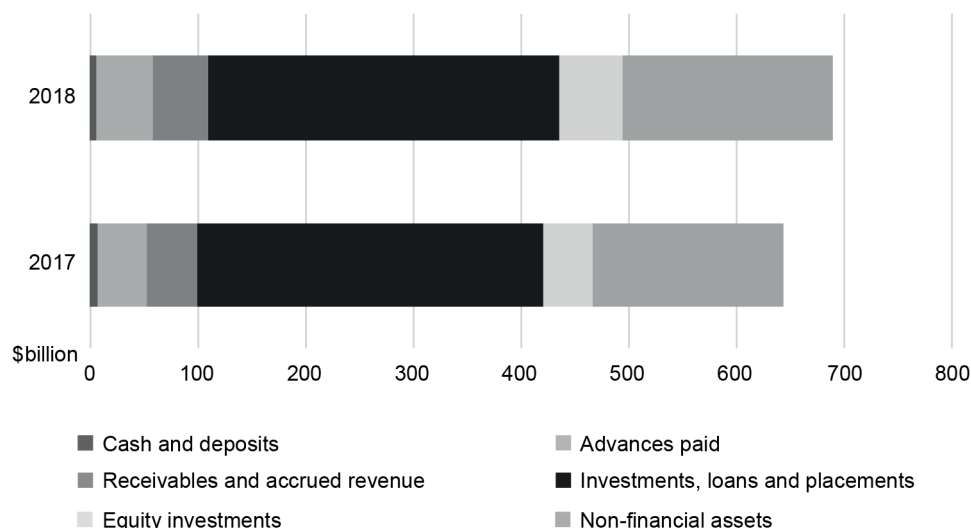
Other gains/(losses) primarily comprise:

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

Note 5: Assets

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

Asset composition



Financial assets

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

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

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

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

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

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

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

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

Non-financial assets

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

Note 5A: Advances paid and receivables

	General Government		Australian Government	
	2018 \$m	2017 \$m	2018 \$m	2017 \$m
ADVANCES PAID				
Loans to State and Territory governments	3,856	3,897	3,856	3,897
Student loans	40,948	36,702	40,948	36,702
Other	11,659	4,610	7,367	5,786
less Impairment allowance(a)	(405)	(291)	(406)	(292)
Total advances paid	56,058	44,918	51,765	46,093
OTHER RECEIVABLES				
Taxes receivable				
Taxes receivable	42,962	37,968	42,998	37,924
less Impairment allowance	(14,345)	(13,583)	(14,345)	(13,583)
less Credit amendment allowance	(4,395)	(2,776)	(4,395)	(2,776)
Net taxes receivable	24,222	21,609	24,258	21,565
Personal benefits recoverable				
Recoveries of benefit payments	5,543	5,898	5,543	5,898
less Impairment allowance	(2,009)	(1,179)	(2,009)	(1,179)
Net personal benefits recoverable	3,534	4,719	3,534	4,719
Goods and services and other				
Goods and services receivable	1,198	1,335	2,690	2,246
Other receivables	6,364	5,100	5,519	4,046
less Impairment allowance	(987)	(935)	(1,026)	(960)
Net goods and services and other	6,575	5,500	7,183	5,332
Total other receivables	34,331	31,828	34,975	31,616
ACCRUED REVENUE				
Accrued taxation revenue	14,151	13,675	14,152	13,675
Other accrued revenue	1,378	641	1,569	859
Total accrued revenue	15,529	14,316	15,721	14,534
Other receivables and accrued revenue	49,860	46,144	50,696	46,150
Total advances paid and receivables	105,918	91,062	102,461	92,243
By maturity:				
Current	49,731	50,926	51,168	50,704
Non-current	56,187	40,136	51,293	41,539
Total by maturity	105,918	91,062	102,461	92,243
By category of financial asset:				
<i>Amortised Cost:</i>				
Loans and receivable	21,401	13,791	16,254	13,250
Held to maturity	-	-	-	-
<i>Fair value:</i>				
At fair value through profit and loss	41,423	37,268	43,076	39,034
Available for sale	-	-	-	-
Statutory receivable	43,094	40,003	43,131	39,959
Total by category of financial asset	105,918	91,062	102,461	92,243

(a) An impairment allowance is separately recognised for financial assets measured at amortised cost. Financial assets measured at fair value through profit or loss, such as student loans, are reported net of impairment and after fair value movements.

Objective

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

Recognition and measurement of advances paid and receivables

Advances are recognised initially at fair value plus transaction costs and subsequently measured at amortised cost using the effective interest rate method (less impairment), unless these loans have been designated as 'held at fair value through profit or loss'. Interest is recognised on loans evenly in proportion to the amount outstanding over the period to repayment. Loans designated as 'held at fair value through profit or loss' include HELP.

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

Accounting judgement and estimate – Credit risk

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

	General Government		Australian Government	
	Advances and loans \$m	Goods and services and other \$m	Advances and loans \$m	Goods and services and other \$m
As at 30 June 2018				
Not past due nor impaired	55,985	4,008	51,691	4,215
Past due or impaired	478	1,592	480	2,032
Total	56,463	5,600	52,171	6,247
As at 30 June 2017				
Not past due nor impaired	44,833	2,996	46,007	2,725
Past due or impaired	376	1,593	378	1,721
Total	45,209	4,589	46,385	4,446

Accounting judgement and estimate – Credit risk on amortised cost assets

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

Reconciliation of the impairment allowance^(a)

	General Government		Australian Government	
	Advances and loans \$m	Goods and services and other \$m	Advances and loans \$m	Goods and services and other \$m
Opening balance at 1 July 2016	(237)	(840)	(237)	(858)
less Amounts written off	(23)	(99)	(23)	(99)
less Amounts recovered and reversed	-	(6)	-	(6)
plus Increase/decrease recognised in net surplus	(76)	(202)	(76)	(208)
plus Other movement	(1)	2	(2)	1
Closing balance at 30 June 2017	(291)	(935)	(292)	(960)
less Amounts written off	(18)	(29)	(18)	(29)
less Amounts recovered and reversed	3	(74)	3	(75)
plus Increase/decrease recognised in net surplus	(122)	(172)	(122)	(161)
plus Other movement	(7)	17	(7)	(9)
Closing balance at 30 June 2018	(405)	(987)	(406)	(1,026)

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

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

	General Government		Australian Government	
	Advances and loans \$m	Goods and services and other \$m	Advances and loans \$m	Goods and services and other \$m
As at 30 June 2018				
0 to 30 days	34	264	35	557
30 to 60 days	17	84	17	142
60 to 90 days	8	62	8	71
Over 90 days	14	195	14	236
Total	73	605	74	1,006
As at 30 June 2017				
0 to 30 days	42	228	42	272
30 to 60 days	19	99	19	128
60 to 90 days	9	78	9	86
Over 90 days	15	253	16	275
Total	85	658	86	761

Accounting judgement and estimate – Credit risk on fair value advances

Loans and receivables designated at fair value through profit and loss predominantly comprise student loans, including those under HELP. The recoverability of these loans is factored into the annual fair value actuarial assessment. The actuarial assessment takes into account future income projections, the pattern and timing of repayments and debt not expected to be recovered (DNER). The gross nominal value of HELP loans was \$60,040 million at 30 June 2018 (2017: \$55,425 million) and no collateral is held. The following table shows the changes in the fair value of HELP loans due to credit risk.

	2018 \$m	2017 \$m
Fair value changes (decreases) due to credit risk:		
During the period	1,258	1,905
Prior periods (cumulative)	17,381	15,423
Cumulative change	18,639	17,328

Based on actuarial assumptions, a one per cent increase/decrease in the DNER percentage would reduce/increase the fair value of new loans by \$68 million and existing loans by \$549 million.

Collateral

The majority of Australian Government entities do not hold collateral to manage credit risk. Cash invested by the Reserve Bank of Australia (RBA) under repurchase agreements is secured by collateral, Indigenous Business Australia holds collateral against home and business loans and the Future Fund holds collateral for derivative contracts.

Accounting judgement and estimate – Fair value

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

	General Government		Australian Government	
	2018 \$m	2017 \$m	2018 \$m	2017 \$m
Advances paid and receivables at fair value				
Level 2	810	710	1,238	1,248
Level 3	40,613	36,559	41,838	37,787
Total fair value	41,423	37,268	43,076	39,034

Advances paid and receivables categorised as Level 2 and Level 3 have been valued using a discounted cash flow approach. The primary inputs include principal due and the discount rate. Level 3 receivables are differentiated from Level 2 in that they are generally actuarially assessed. The two main valuation inputs are DNER and the fair value of the remaining receivable, calculated as the present value of projected future cash flows.

These balances are sensitive to changes in the underlying assumptions, including the discount rate. Student loans are sensitive to changes in the future Consumer Price Index (CPI) growth, the discount rate (yield curve) and DNER. Level 3 advances paid and receivables are reconciled as follows:

	General Government		Australian Government	
	2018 \$m	2017 \$m	2018 \$m	2017 \$m
Level 3 advances paid and receivables				
Opening balance at 1 July	36,559	37,365	37,787	38,700
Purchases/payments	6,907	6,996	7,093	7,248
Sales/repayments	(2,735)	(2,510)	(2,957)	(2,822)
Gains/(Losses) recognised in net surplus	(118)	(5,293)	(85)	(5,340)
Gains/(Losses) recognised in equity	-	-	-	-
Transfers in/(out) of level 3	1	-	1	-
Total fair value	40,613	36,559	41,838	37,787

Note 5B: Investments, loans and placements

	General Government		Australian Government	
	2018 \$m	2017 \$m	2018 \$m	2017 \$m
Gold	-	-	4,344	4,146
Deposits	49,554	61,043	29,069	25,751
Government securities(a)	-	-	142,998	150,673
Residential mortgage backed securities	-	1,927	-	1,927
International Monetary Fund quota	12,493	11,883	17,616	17,005
Defined benefit superannuation plan assets	-	-	827	496
Collective investment vehicles	67,859	57,049	67,859	57,049
Other interest bearing securities	44,905	47,213	45,857	48,018
Other	15,801	14,137	18,253	15,813
Total investments, loans and placements	190,612	193,252	326,823	320,878
By category of financial asset:				
<i>Amortised cost:</i>				
Loans and receivable	8,469	6,973	129,706	122,114
Held to maturity	3,422	3,355	3,500	3,574
<i>Fair value:</i>				
At fair value through profit and loss	165,065	170,428	173,724	177,611
Available for sale	13,656	12,496	14,608	13,301
Other(b)	-	-	5,285	4,278
Total by category of financial asset	190,612	193,252	326,823	320,878

- (a) Comprise government securities (non-Australian Government) held by the RBA for monetary policy objectives. Government securities held for investment purposes are included in other interest bearing securities.
- (b) Gold holdings and superannuation plan assets are included in financial assets in the balance sheet, but are not financial instruments for the purposes of AASB 7 *Financial Instruments: Disclosures*.

Objective

The GGS holds deposits for liquidity management and the International Monetary Fund (IMF) quota to meet its subscription obligations to the IMF. Investments in collective investment vehicles (CIVs) and other interest bearing liabilities are held by the Australian Government investment funds as detailed in Note 10B. The RBA holds gold and government securities in conducting monetary policy.

Recognition and measurement of investments, loans and placements

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

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

Investments in domestic and foreign government securities, except those contracted for sale under repurchase agreements, are classified by the RBA as 'at fair value through profit or loss'. The investments are generally recoverable within 12 months and are used to manage liquidity risk and by the RBA for monetary policy. Securities purchased and contracted for sale under repurchase agreements are classified as 'loans and receivables' and valued at amortised cost. The difference between the purchase and sale price is accrued over the term of the agreement and recognised as interest revenue.

The IMF quota represents Australia's membership subscription to the IMF. The investment is denominated in special drawing rights (SDR) and is valued at the Australian dollar equivalent. SDR is an international type of monetary reserve made up of a basket of national currencies created by the IMF. The fair value in the investment in the IMF quota is classified as 'available for sale' but is measured at cost as fair value cannot be reliably measured due to its unique nature. The IMF quota is not expected to be realised in the next 12 months.

The Future Fund and Investment Funds employ CIVs in their investment strategy. Investments in CIVs are recorded at fair value on the date which consideration is provided to the contractual counterparty under the terms of the relevant subscription agreement. Other interest bearing securities are primarily held by the Investment Funds (refer Note 10B) and include negotiable certificates of deposit, mortgage and asset backed securities, bank bills and corporate debt securities. Investments in CIVs and other interest bearing securities by the Future Fund and Investment Funds are held for the longer term, consistent with each Funds' investment mandate.

Accounting judgement and estimate – Fair value

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

	General Government		Australian Government	
	2018 \$m	2017 \$m	2018 \$m	2017 \$m
Investments, loans and placements at fair value				
Level 1	7,319	1,258	66,181	72,342
Level 2	88,583	110,431	43,335	51,368
Level 3	82,819	71,235	83,160	71,348
Total fair value(a)	178,721	182,924	192,676	195,058

(a) Includes gold holdings which are not a financial instrument under AASB 7 but are held at fair value.

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

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

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

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

	General Government		Australian Government	
	2018 \$m	2017 \$m	2018 \$m	2017 \$m
Level 3 investments, loans and placements				
Opening balance at 1 July	71,235	64,177	71,348	64,319
Purchases/Payments	21,984	19,974	22,205	19,987
Sales/Repayments	(16,187)	(13,857)	(16,231)	(14,003)
Gains/(Losses) recognised in net surplus	5,823	941	5,828	937
Gains/(Losses) recognised in equity	-	-	2	97
Transfers in/(out) of level 3	(36)	-	8	11
Total fair value	82,819	71,235	83,160	71,348

Accounting judgement and estimate – Credit risk

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

- the Future Fund and other Investment Funds' exposure to debt securities issued by domestic banks;
- the Public Financial Corporation Sector's exposure on financing and credit facilities extended to non-government clients, including commercial account exposures for the Export Finance and Insurance Corporation (EFIC) and the RBA's exposure to the issuers of held securities, banks with which the RBA deposits funds and counterparties that are yet to settle transactions; and
- the Australian Office of Financial Management's (AOFM) financial investments including loans to state and territory governments, deposits and securities.

The Boards responsible for governing the above organisations manage exposure by setting limits on the credit rating of counter-parties.

The Australian Government is also exposed to credit risk on foreign exchange swaps and interest rate derivatives. The net derivative exposure is detailed in Note 10B.

Note 5C: Equity investments

	General Government		Australian Government	
	2018 \$m	2017 \$m	2018 \$m	2017 \$m
Investments in private funds and corporations	53,903	42,203	54,367	42,620
Investment in public corporations	55,338	46,672	-	-
Equity accounted investments	3,249	3,538	3,625	3,941
Total equity investments	112,490	92,413	57,992	46,561
By category of financial asset:				
<i>Fair value:</i>				
At fair value through profit and loss	49,597	38,603	49,597	38,603
Available for sale	59,644	50,272	4,770	4,017
<i>Other</i>	3,249	3,538	3,625	3,941
Total by category of financial asset	112,490	92,413	57,992	46,561

Objective

Shares are held by the investment funds as detailed in Note 10B. The Australian Government also holds share equity in international financial institutions and multilateral aid organisations to meet its international policy obligations. The investment in public corporations represents the Government's ownership interest in public corporations such as the RBA, Australia Post and nbn Co Ltd (nbn Co). Equity investments are not expected to be realised within the next 12 months.

Recognition and measurement of equity investments

At the whole of government level, equity investments primarily consist of the Future Fund's holdings of listed equities and listed managed investment schemes. These investments are designated as 'financial assets through profit or loss' on acquisition.

At the GGS level, equity investments also include the Australian Government's ownership interest in public corporations. The investments are eliminated at whole of government level. Where the public corporation is a government business enterprise whose principal function is to engage in commercial activities in the private sector and the corporation generates significant non-government cash in flows (compared to inflows from Government), the investment is measured at fair value applying a discounted cash flow technique. Investments in other public corporations are measured as the Australian Government's proportional interest in the net assets of the public corporation as at the end of the reporting period.

Accounting judgement and estimate – Fair value

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

	General Government		Australian Government	
	2018 \$m	2017 \$m	2018 \$m	2017 \$m
Equity investments at fair value				
Level 1	49,390	38,775	49,390	38,775
Level 2	7,556	50	642	50
Level 3	52,295	50,050	4,335	3,795
Total fair value	109,241	88,875	54,367	42,620

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

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

For general government investments in public corporations valued using a discounted cash flow technique, cash flow projections for a forecast period and terminal year are based on management corporate plans and have been discounted using a weighted average cost of capital appropriate to the public corporation.

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

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

	General Government		Australian Government	
	2018 \$m	2017 \$m	2018 \$m	2017 \$m
Level 3 equity investments				
Opening balance at 1 July	50,050	48,000	3,795	3,681
Purchases/Payments	2,753	7,216	2,772	(233)
Sales/Repayments	(23)	(43)	(23)	(43)
Gains/(Losses) recognised in net surplus	375	(48)	375	(48)
Gains/(Losses) recognised in equity	(850)	(5,112)	(2,574)	401
Transfers in/(out) of level 3	(10)	37	(10)	37
Total fair value	52,295	50,050	4,335	3,795

Note 5D: Land and buildings, plant, equipment and infrastructure, heritage and cultural assets and intangibles
Land and buildings, plant, equipment and infrastructure, heritage and cultural assets and intangibles by basis of valuation

Item	Land		Buildings		Specialist military equipment		Other plant, infrastructure		Heritage assets		Investment property		Computer software		Other intangibles		Total	
	Fair value	\$m	Fair value	\$m	Fair value	\$m	Fair value	\$m	Fair value	\$m	Fair value	\$m	Fair value	\$m	Fair value	\$m	Fair value	\$m
Australian Government																		
Measurement basis																		
Net book value at 30 June 2018																		
Gross book value	13,316		32,285		63,568		63,216		11,775		341		15,055		5,863		205,419	
Accumulated depreciation/amortisation	-		(3,212)		(1,548)		(8,527)		(156)		-		(8,648)		(751)		(22,842)	
Net book value at 30 June 2018	13,316		29,073		62,020		54,689		11,619		341		6,407		5,112		182,577	
Assets at fair value by level of the fair value hierarchy:																		
Level 2	11,478		4,326		-		2,065		7,640		341		-		-		25,850	
Level 3	1,838		24,747		62,020		52,624		3,979		-		-		-		145,208	
Fair value at 30 June 2018	13,316		29,073		62,020		54,689		11,619		341		-		-		171,058	
Net book value at 30 June 2017																		
Gross book value	12,237		30,179		59,275		48,363		11,752		281		13,393		4,968		180,448	
Accumulated depreciation/amortisation	-		(2,067)		(702)		(5,888)		(122)		-		(7,370)		(631)		(16,780)	
Net book value at 30 June 2017	12,237		28,112		58,573		42,475		11,630		281		6,023		4,337		163,668	
Assets at fair value by level of the fair value hierarchy:																		
Level 2	10,745		4,466		-		1,753		7,621		281		-		-		24,866	
Level 3	1,492		23,646		58,573		40,722		4,009		-		-		-		128,442	
Fair value at 30 June 2017	12,237		28,112		58,573		42,475		11,630		281		-		-		153,308	

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

General Government		Land	Buildings	military equipment	infrastructure	and cultural assets	investment property	Computer software	Other intangibles	Total
Item		\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Measurement basis										
Net book value at 30 June 2018										
Gross book value	11,598	29,247	63,568	18,846	11,775	173	10,396	4,339	149,942	
Accumulated depreciation/amortisation	-	(2,925)	(1,548)	(3,313)	(156)	-	(6,386)	(454)	(14,782)	
Net book value at 30 June 2018	11,598	26,322	62,020	15,533	11,619	173	4,010	3,885	135,160	
Assets at fair value by level of the fair value hierarchy:										
Level 2	10,138	3,395	-	1,189	7,640	173	-	-	22,535	
Level 3	1,460	22,927	62,020	14,344	3,979	-	-	-	104,730	
Fair value at 30 June 2018	11,598	26,322	62,020	15,533	11,619	173	-	-	127,265	
Net book value at 30 June 2017										
Gross book value	11,002	27,537	59,275	17,592	11,752	112	9,425	3,958	140,653	
Accumulated depreciation/amortisation	-	(1,845)	(702)	(2,579)	(122)	-	(5,572)	(359)	(11,179)	
Net book value at 30 June 2017	11,002	25,692	58,573	15,013	11,630	112	3,853	3,599	129,474	
Assets at fair value by level of the fair value hierarchy:										
Level 2	9,813	3,633	-	1,021	7,621	112	-	-	22,200	
Level 3	1,189	22,059	58,573	13,992	4,009	-	-	-	99,822	
Fair value at 30 June 2017	11,002	25,692	58,573	15,013	11,630	112	-	-	122,022	

Reconciliation of movement in land and buildings, plant, equipment and infrastructure, heritage and cultural assets and intangibles									
Australian Government									
Item	Land \$m	Buildings \$m	Specialist military equipment \$m	Other plant, equipment and infrastructure \$m	Heritage assets \$m	Investment property \$m	Computer software \$m	Other intangibles \$m	Total \$m
Net book value at 1 July 2016	11,738	27,779	56,217	36,385	11,462	377	5,745	4,086	153,789
Additions:									
Purchases and entity acquisitions	103	1,958	6,197	7,841	70	52	282	230	16,733
Acquisition by finance lease	4	37	-	1,308	-	-	-	-	1,349
Internally developed	-	-	-	-	-	-	1,576	-	1,576
Revaluations: write-ups	881	108	431	98	203	6	-	-	1,727
Depreciation/amortisation expense	-	(1,694)	(4,046)	(3,220)	(100)	-	(1,394)	(105)	(10,559)
Recoverable amount write-downs	(346)	(49)	(292)	(112)	(10)	(3)	(153)	(7)	(972)
Reversal of write-downs	-	8	11	32	4	-	-	76	131
Other movements	(109)	72	70	212	1	(76)	(31)	57	196
Disposals	(34)	(107)	(15)	(69)	-	(75)	(2)	-	(302)
As at 30 June 2017	12,237	28,112	58,573	42,475	11,630	281	6,023	4,337	163,668
Additions:									
Purchases and entity acquisitions	476	2,421	7,510	15,099	68	65	358	973	26,970
Acquisition by finance lease	1	41	-	1,241	-	-	-	-	1,283
Internally developed	-	-	-	-	-	-	1,564	-	1,564
Revaluations: write-ups	1,037	770	970	42	(46)	14	-	-	2,787
Depreciation/amortisation expense	-	(1,680)	(4,448)	(3,942)	(95)	-	(1,516)	(116)	(11,797)
Recoverable amount write-downs	(3)	(58)	(361)	(117)	(5)	(12)	(62)	(98)	(716)
Reversal of write-downs	-	3	14	18	1	-	2	34	72
Other movements	(31)	(241)	(208)	(8)	68	87	70	(17)	(280)
Disposals	(401)	(295)	(30)	(119)	(2)	(94)	(32)	(1)	(974)
As at 30 June 2018	13,316	29,073	62,020	54,689	11,619	341	6,407	5,112	182,577

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

General Government										
Item	Land \$m	Buildings \$m	Specialist equipment \$m	Other plant, equipment and infrastructure \$m	Heritage assets \$m	Investment property \$m	Computer software \$m	Other intangibles \$m	Total \$m	
Net book value at 1 July 2016	10,620	25,547	56,217	14,281	11,462	164	3,905	3,376	125,572	125,572
Additions:										
Purchases and entity acquisitions	86	1,810	6,197	1,975	70	44	259	188	10,629	10,629
Acquisition by finance lease	4	37	-	16	-	-	-	-	57	57
Internally developed	-	-	-	-	-	-	855	-	855	855
Revaluations: write-ups	753	(77)	431	192	203	1	-	-	1,503	1,503
Depreciation/amortisation expense	-	(1,533)	(4,046)	(1,585)	(100)	-	(948)	(78)	(8,290)	(8,290)
Recoverable amount write-downs	(344)	(45)	(292)	(102)	(10)	(2)	(153)	(4)	(952)	(952)
Reversal of write-downs	-	8	11	31	4	-	-	76	130	130
Other movements	(88)	52	70	242	1	(30)	(64)	41	224	224
Disposals	(29)	(107)	(15)	(37)	-	(65)	(1)	-	(254)	(254)
As at 30 June 2017	11,002	25,692	58,573	15,013	11,630	112	3,853	3,599	129,474	129,474
Additions:										
Purchases and entity acquisitions	55	2,044	7,510	2,224	68	65	269	408	12,643	12,643
Acquisition by finance lease	1	40	-	96	-	-	-	-	137	137
Internally developed	-	-	-	-	-	-	953	-	953	953
Revaluations: write-ups	923	604	970	29	(46)	4	-	-	2,484	2,484
Depreciation/amortisation expense	-	(1,521)	(4,448)	(1,724)	(95)	-	(999)	(90)	(8,877)	(8,877)
Recoverable amount write-downs	(3)	(58)	(361)	(91)	(5)	-	(62)	(59)	(639)	(639)
Reversal of write-downs	-	3	14	18	1	-	2	34	72	72
Other movements	19	(198)	(208)	64	68	86	26	(6)	(149)	(149)
Disposals	(399)	(284)	(30)	(96)	(2)	(94)	(32)	(1)	(938)	(938)
As at 30 June 2018	11,598	26,322	62,020	15,533	11,619	173	4,010	3,885	135,160	135,160

Objective

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

Recognition and measurement of non-financial assets

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

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

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

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

Accounting judgement and estimate – Fair value

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

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

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

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

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

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

Reconciliation for recurring Level 3 fair value measurements

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

Item	General Government						Australian Government					
	Land	Buildings	Specialist military equipment	Other IPE	Heritage & cultural assets		Land	Buildings	Specialist military equipment	Other IPE	Heritage & cultural assets	
	\$m	\$m	\$m	\$m	\$m		\$m	\$m	\$m	\$m	\$m	\$m
Level 3 fair value at 1 July 2016	1,157	22,368	56,217	13,393	3,873		1,415	23,921	56,217	34,793	3,873	
Additions	4	1,683	6,197	1,807	35		20	1,886	6,197	9,043	35	
Disposals	-	(120)	(15)	(33)	-		-	(229)	(15)	(65)	-	
Gains/(Losses) recognised in net surplus	(697)	(1,451)	(4,257)	(1,462)	(66)		(689)	(1,550)	(4,257)	(2,953)	(66)	
Gains/(Losses) recognised in equity	734	(128)	431	215	147		775	(89)	431	102	147	
Transfers in/(out) of level 3	(9)	(293)	-	72	20		(29)	(293)	-	(198)	20	
As at 30 June 2017	1,189	22,059	58,573	13,992	4,009		1,492	23,646	58,573	40,722	4,009	
Additions	3	1,905	7,510	1,794	40		32	2,236	7,510	15,431	41	
Disposals	-	(15)	(30)	(42)	-		-	(15)	(30)	(55)	-	
Gains/(Losses) recognised in net surplus	-	(1,651)	(5,003)	(1,561)	(68)		-	(1,751)	(5,003)	(3,674)	(69)	
Gains/(Losses) recognised in equity	127	360	970	1	(90)		174	469	970	11	(90)	
Transfers in/(out) of level 3	141	269	-	160	88		140	162	-	189	88	
As at 30 June 2018	1,460	22,927	62,020	14,344	3,979		1,838	24,747	62,020	52,624	3,979	

Contractual capital commitments

At the reporting date, commitments for capital works comprised:

	General Government		Australian Government	
	2018 \$m	2017 \$m	2018 \$m	2017 \$m
Capital Commitments				
Buildings	1,714	2,019	2,004	2,065
Specialist Military Equipment	18,259	14,329	18,259	14,329
Other	2,235	2,494	9,430	9,588
Total capital commitments	22,208	18,842	29,693	25,982

Leased assets

Australian Government entities lease assets under a number of finance leases. As at 30 June 2018, the carrying value of leased assets included \$1,251 million in land and buildings (2017: \$1,232 million) and \$6,331 million in plant and equipment (2017: \$5,294 million).

GGs leased assets included \$1,234 million in land and buildings (2017: \$1,213 million) and \$381 million in plant and equipment (2017: \$323 million). Refer Note 6D for accounting policy disclosure on finance leases.

Assets under construction

Australian Government assets under construction include \$2,668 million (2017: \$1,746 million) in land and buildings, \$16,469 million (2017: \$16,379 million) in SME and \$5,842 million (2017: \$5,726 million) in other plant, equipment and infrastructure (including computer software and intangibles).

GGs assets under construction include \$2,567 million (2017: \$1,687 million) in land and buildings, \$16,469 million (2017: \$16,379 million) in SME and \$2,389 million (2017: \$1,813 million) in other plant, equipment and infrastructure (including computer software and intangibles).

Note 5E: Inventories

	General Government		Australian Government	
	2018 \$m	2017 \$m	2018 \$m	2017 \$m
Inventories held for sale				
Finished goods(a)	620	746	738	839
Raw materials and stores	69	54	93	67
Work in progress	446	378	452	381
Total inventories held for sale	1,135	1,178	1,283	1,287
Consumable stores and inventories held for distribution	7,510	7,370	7,548	7,402
Total inventories	8,645	8,548	8,831	8,689

(a) Australian Government finished goods include \$245 million valued at net realisable value (2017: \$261 million). GGS finished goods include \$196 million valued at net realisable value (2017: \$213 million).

Objective

Inventories not held for sale include explosive ordnance, general spares and consumables, and strategic stockpiles held for distribution.

Recognition and measurement of inventories

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

Australian Government inventories include \$2,244 million (2017: \$1,979 million) expected to be consumed or sold within the next 12 months. GGS inventories include \$2,058 million (2017: \$1,837 million) expected to be consumed or sold within the next 12 months.

Note 5F: Other non-financial assets

	General Government		Australian Government	
	2018 \$m	2017 \$m	2018 \$m	2017 \$m
Biological assets	36	54	36	54
Assets held for sale	145	195	256	336
Prepayments	3,258	3,547	3,615	3,822
Other	32	60	36	68
Total other non-financial assets	3,471	3,856	3,943	4,280

Note 5G: Assets by function

	General Government		Australian Government	
	2018 \$m	2017 \$m	2018 \$m	2017 \$m
General public services	248,402	224,679	247,164	223,217
Defence	100,253	95,521	99,952	95,234
Public order and safety	3,987	3,056	3,987	3,056
Education	43,812	39,551	43,812	39,551
Health	2,561	2,153	2,631	2,126
Social security and welfare	9,129	8,896	8,822	8,596
Housing and community amenities	4,856	4,737	4,856	4,737
Recreation and culture	16,119	15,867	16,119	15,867
Fuel and energy	10,871	2,879	12,312	2,879
Agriculture, forestry and fishing	5,219	4,937	5,219	4,937
Mining, manufacturing and construction	531	526	2,463	2,329
Transport and communication	29,189	24,692	43,425	36,825
Other economic affairs	30,016	26,256	161,010	167,411
Other purposes(a)	58,131	69,995	37,097	35,837
Total assets	563,076	523,745	688,869	642,602

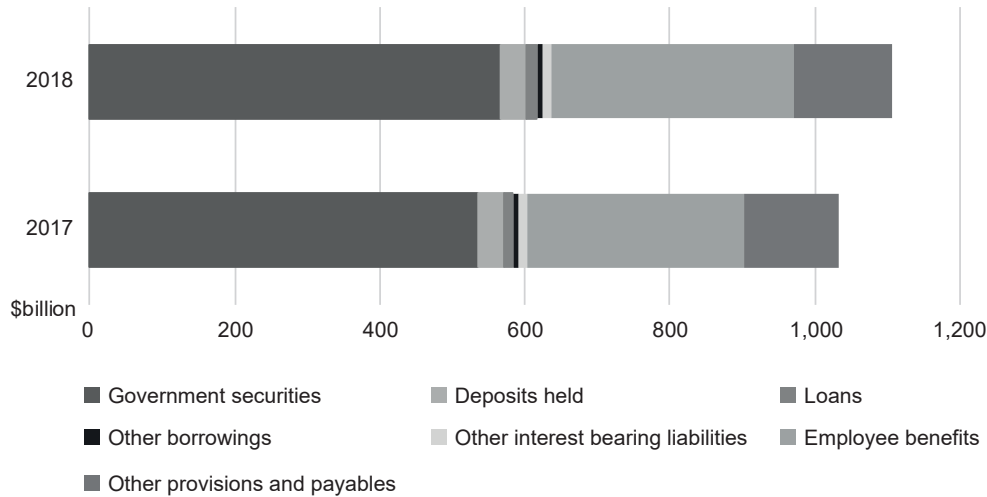
(a) Cash and deposits that are not allocated to other functions are included in the 'other purposes' function.

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

Note 6: Liabilities

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

Liabilities composition



Interest bearing liabilities

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

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

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

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

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

Provisions and payables

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

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

Note 6A: Deposit liabilities

	General Government		Australian Government	
	2018 \$m	2017 \$m	2018 \$m	2017 \$m
Exchange settlement funds	-	-	28,546	28,215
Drawing accounts held with the RBA	-	-	523	540
State governments	-	-	149	232
Monies held in trust	369	213	369	213
Foreign governments	-	-	3,766	5,127
Other	12	5	488	434
Total deposit liabilities	381	218	33,841	34,761

Objective

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

Recognition and measurement of deposits held

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

Liquidity risk on deposits held

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

	General Government		Australian Government	
	2018 \$m	2017 \$m	2018 \$m	2017 \$m
Exposure to liquidity risk on deposits held				
On demand	367	212	33,403	32,560
1 year or less	2	6	426	2,201
1 to 5 years	7	-	7	-
More than 5 years	5	-	5	-
Total	381	218	33,841	34,761

Note 6B: Government securities

	General Government		Australian Government	
	2018 \$m	2017 \$m	2018 \$m	2017 \$m
Treasury bonds	516,869	487,486	516,615	487,232
Treasury notes	2,492	3,489	2,492	3,489
Treasury indexed bonds	48,548	44,718	48,548	44,718
Other(a)	7,541	11,561	6	6
Total government securities	575,450	547,254	567,661	535,445

(a) Includes securities held by Australian Government public corporations.

Objective

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

Recognition and measurement of government securities

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

Liquidity risk on government securities

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

	General Government		Australian Government	
	2018 \$m	2017 \$m	2018 \$m	2017 \$m
Exposure to liquidity risk on government securities				
1 year or less	53,023	53,355	45,670	52,204
1 to 5 years	254,090	234,524	252,636	229,464
5 to 10 years	221,441	208,876	220,519	201,267
10 to 15 years	92,642	86,841	92,642	86,841
More than 15 years	55,970	56,955	55,970	56,955
Total	677,166	640,551	667,437	626,731

Note 6C: Loans

	General Government		Australian Government	
	2018 \$m	2017 \$m	2018 \$m	2017 \$m
Bills of exchange and promissory notes	10,010	9,627	10,912	10,665
Bonds (non-Treasury)	-	-	2,390	2,479
Loans	458	552	1,879	956
Total loans	10,468	10,179	15,181	14,100
By maturity:				
Current	130	153	1,112	988
Non-current	10,338	10,026	14,069	13,112
Total by maturity	10,468	10,179	15,181	14,100
By category and valuation of financial liability:				
Amortised cost	10,468	10,179	12,539	11,786
Fair value:				
Level 2	-	-	2,533	2,208
Level 3	-	-	109	106
Total by category and valuation	10,468	10,179	15,181	14,100

Objective

General Government promissory notes are issued to the IMF and international financial institutions and relate to the undrawn paid in capital subscriptions to these international organisations. Outside the General Government Sector, the Export Finance and Insurance Corporation (EFIC) borrows to fund lending activities.

Recognition and measurement of loans

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

Accounting judgements and estimates – Fair value

Loans designated fair value through profit or loss and categorised as Level 2 and Level 3 are limited to EFIC borrowings. The fair value designation reduces the accounting mismatch that would otherwise arise with derivatives that have been entered by EFIC to hedge transactions. The fair value of these loans have been determined using market interest rates and valuation techniques which incorporate discounted cash flows.

Liquidity risk on loans

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

	General Government		Australian Government	
	2018 \$m	2017 \$m	2018 \$m	2017 \$m
Exposure to liquidity risk on loans				
1 year or less	136	177	1,615	1,467
1 to 5 years	235	283	2,603	2,370
More than 5 years	10,097	9,720	11,000	10,708
Total	10,468	10,180	15,218	14,545

Note 6D: Other borrowings

	General Government		Australian Government	
	2018 \$m	2017 \$m	2018 \$m	2017 \$m
Finance lease liabilities as at the reporting date are reconciled to the lease liability as follows:				
Not later than one year	265	162	1,064	812
Later than one year and not later than five years	1,007	743	3,772	2,929
Later than five years	2,980	2,142	19,111	15,606
Minimum lease payments	4,252	3,047	23,947	19,347
less Future finance charges	2,728	1,429	15,140	11,832
Total finance lease liabilities	1,524	1,618	8,807	7,515
Finance lease liabilities maturity schedule:				
Current	96	61	268	195
Non-current	1,428	1,557	8,539	7,320
Total finance lease liabilities by maturity	1,524	1,618	8,807	7,515

Objective

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

Recognition and measurement of other borrowings (finance leases)

Finance leases effectively transfer from the lessor to the lessee substantially all the risks and rewards incidental to ownership of leased assets. Where an asset is acquired by means of a finance lease, the asset is capitalised at either the fair value of the leased asset or, if lower, the present value of minimum lease payments at the inception of the lease contract. A corresponding liability is recognised at the same time in other borrowings. Lease payments are allocated between the principal component and the interest expense. The discount rate used is the interest rate implicit in the lease.

Note 6E: Other interest bearing liabilities

	General Government		Australian Government	
	2018 \$m	2017 \$m	2018 \$m	2017 \$m
Swap principal payable	1,718	771	2,398	2,184
Amounts outstanding under repurchase agreements	-	-	1,797	1,580
Special reserve - IMF special drawing rights	5,860	5,574	5,860	5,574
Finance lease incentives	11	11	11	11
Other	-	3	694	1,536
Total other interest bearing liabilities	7,589	6,359	10,760	10,885
By category and valuation of financial liability:				
Amortised cost	6,028	5,588	8,536	9,809
Fair value:				
Level 1	12	20	69	20
Level 2	1,549	751	2,086	1,056
Level 3	-	-	69	-
Total by category and valuation	7,589	6,359	10,760	10,885

Objective

The International Monetary Fund Special Drawing Rights (IMF SDR) liability reflects the Government's obligation to repay to the IMF the cumulative allocations of SDRs provided to Australia since joining the IMF.

The RBA enters into repurchase agreements in carrying out its operations to manage domestic liquidity and foreign reserves. Refer to Note 10B for a discussion of swap agreements.

Recognition and measurement of other interest bearing liabilities

The IMF SDR allocation liability reflects the amortised cost adjusted for foreign currency translation in Australian dollars of the Australian Government's liability to repay Australia's cumulative allocations of SDRs. Interest is payable to the IMF in relation to the amount by which Australia's SDR holdings are below Australia's net cumulative allocations.

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

Accounting judgements and estimates – Fair value

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

Liquidity risk on other interest bearing liabilities

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

	General Government		Australian Government	
	2018 \$m	2017 \$m	2018 \$m	2017 \$m
Exposure to liquidity risk on other debt				
On demand	-	16	-	18
1 year or less	1,726	761	5,173	5,783
1 to 5 years	2	-	2,502	1,987
More than 5 years	5,861	5,582	6,441	6,207
Total	7,589	6,359	14,116	13,995

Note 6F: Employee benefits

	General Government		Australian Government	
	2018 \$m	2017 \$m	2018 \$m	2017 \$m
Total superannuation liability	313,495	279,459	313,913	279,799
Other employee liabilities				
Leave and other entitlements	8,012	7,603	9,344	8,883
Accrued salaries and wages	263	250	398	401
Workers compensation claims	2,550	2,794	2,740	2,975
Separations and redundancies	156	112	293	328
Military compensation	8,558	7,099	8,558	7,099
Other	290	276	381	372
Total other employee liabilities	19,829	18,134	21,714	20,058
Total employee and superannuation liabilities	333,324	297,593	335,627	299,857

Objective

The management of the Australian Government's accumulated superannuation liability is discussed in Note 10C. Other employee liabilities include provisions for the accumulated leave entitlements of Australian Government employees, claims for workers compensation (managed through Comcare) and military compensation (managed through the Department of Veterans' Affairs (DVA)).

Recognition and measurement of employee benefits

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

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

All other employee benefits liabilities are measured at the present value of the estimated future cash outflows to be made in respect of services provided by employees up to the reporting date.

At the Australian Government level, some 4.4 per cent of Australian Government employee liabilities are expected to be settled within the next 12 months (\$14,771 million at 30 June 2018). Note 10C provides the average expected maturity for each of the Australian Government's large defined benefit superannuation schemes.

Accounting judgements and estimates – employee benefits

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

The provision for workers compensation claims represents an estimate of the present value of future payments in respect of claims for events occurring before 30 June 2018 with a 75 per cent probability of sufficiency. The expected future payments are discounted to present value using a risk free rate. The expected future payments include claims reported but not yet paid, claims incurred but not yet reported, and anticipated claims handling costs. The 2017-18 annual report for Comcare includes greater detail on this provision.

The military compensation provision represents an estimate of the present value of future payments in respect of claims under the *Military Rehabilitation and Compensation Act 2004* and the *Safety, Rehabilitation and Compensation Act 1988* arising from service rendered before 30 June 2018. The provision is calculated by discounting future payments using a yield curve derived from the yields on Commonwealth bonds of various durations as at 30 June 2018. The 2017-18 DVA annual report details the assumptions and areas of uncertainty underpinning the actuarial estimation of the military provision.

Note 6G: Other payables

	General Government		Australian Government	
	2018 \$m	2017 \$m	2018 \$m	2017 \$m
Payables				
Supplier payables				
Trade creditors and accrued expenses	4,767	4,702	7,793	7,171
Operating lease rental payable	481	442	481	442
Personal benefits - indirect	719	659	719	659
Other creditors	1,580	1,135	2,913	2,738
Total supplier payables	7,547	6,938	11,906	11,010
Total personal benefits payable - direct	2,758	2,451	2,758	2,451
Total subsidies payable	602	549	602	549
Grants payable				
State and territory governments	291	792	291	792
Private sector	573	532	573	532
Overseas	1,879	2,198	1,879	2,198
Other	325	400	325	402
Total grants payable	3,068	3,922	3,068	3,924
Other payables				
Unearned income	966	2,395	1,394	2,773
Other	1,458	1,397	1,551	1,486
Total other payables	2,424	3,792	2,945	4,259
Total payables	16,399	17,652	21,279	22,193
By category and valuation of financial liability:				
Amortised cost - statutory liability	2,864	3,756	2,864	3,756
Amortised cost	10,886	8,010	15,332	13,690
Fair value:				
Level 3	1,683	1,964	1,689	1,974
Unearned income	966	3,922	1,394	2,773
Total by category and valuation	16,399	17,652	21,279	22,193

Objective

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

Recognition and measurement of other payables

Trade and other payables, including accruals, are recorded when Australian Government entities are required to make future payments as a result of a purchase of assets or services. Payables are initially recognised at fair value and are subsequently measured at amortised cost. Most payables are expected to be settled within 12 months.

Accounting judgements and estimates – Fair value

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

	General Government		Australian Government	
	2018 \$m	2017 \$m	2018 \$m	2017 \$m
Level 3 payables				
Opening balance at 1 July	1,964	1,251	1,974	1,261
Sales/repayments	(387)	(402)	(388)	(402)
Gains/(Losses) recognised in net surplus	106	1,115	103	1,115
Total fair value	1,683	1,964	1,689	1,974

Liquidity risk on other payables

Supplier and related contractual payables are largely due within the next 30 days to 12 months. In assessing liquidity risk, the remaining contractual cash flow maturities of these liabilities do not differ materially from the carrying amount reported above.

With the exception of grants payable to multilateral aid organisations, grant and subsidies payable at 30 June are for amounts contractually due within the next twelve months. As such, they are not subject to discounting on recognition in the financial statements.

The maturity profile for multilateral grants is as follows:

	General Government		Australian Government	
	2018 \$m	2017 \$m	2018 \$m	2017 \$m
Exposure to other multilateral grants payable				
1 year or less	291	314	291	314
1 to 5 years	1,052	1,117	1,052	1,117
More than 5 years	340	533	340	533
Total	1,683	1,964	1,683	1,964

Note 6H: Other provisions

	General Government		Australian Government	
	2018 \$m	2017 \$m	2018 \$m	2017 \$m
Australian currency on issue	-	-	75,565	73,623
Other provisions				
Grant provisions	7,877	7,622	7,877	7,622
Provision for outstanding benefits and claims	17,086	16,390	18,387	17,635
Provision for tax refunds	3,493	2,815	3,493	2,815
Provision for restoration, decommissioning and makegood	2,616	2,372	2,918	2,598
Subsidy provisions	3,901	4,175	3,901	4,175
Other	1,020	871	1,323	1,121
Total other provisions	35,993	34,245	37,899	35,966
Total provisions	35,993	34,245	113,464	109,589

Objective

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

Recognition and measurement of other provisions

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

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

The calculation of provisions is subject to the volatility of economic assumptions, in particular, discount rates, inflation and payment pattern assumptions. In calculating the estimated cost of future payments for each provision, actuarial advice is generally obtained.

Reconciliation of movement in provisions

	General Government	Australian Government
	2018 \$m	2018 \$m
Balance of provisions at 1 July	34,245	109,589
Provisions made during the year	15,718	18,105
Provisions used during the year	(14,124)	(14,411)
Provisions remeasured, reversed or unwound during the year	154	181
Balance of provisions at 30 June	35,993	113,464

Note 7: Net revaluation increases/(decreases) in other comprehensive income

	General Government		Australian Government	
	2018 \$m	2017 \$m	2018 \$m	2017 \$m
Financial assets				
Equity investments	(869)	(5,159)	515	59
Non-financial assets				
Land	929	748	1,052	876
Buildings	591	(131)	761	54
Specialist military equipment	970	431	970	431
Other plant, equipment and infrastructure	22	232	37	136
Heritage and cultural assets	(50)	193	(50)	193
Provision for restoration, decommissioning and makegood	(42)	15	(42)	15
Total non-financial assets	2,420	1,488	2,728	1,705
Total revaluation increases/(decreases) in other comprehensive income	1,551	(3,671)	3,243	1,764

Note 8: Reconciliation of cash

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

		General Government		Australian Government	
		2018 \$m	2017 \$m	2018 \$m	2017 \$m
Net operating balance		(4,156)	(32,359)	(8,379)	(36,885)
<i>less</i>	Revenues not providing cash				
	Other non-cash revenues	2,244	921	2,439	1,023
Total revenues not providing cash		2,244	921	2,439	1,023
<i>plus</i>	Expenses not requiring cash				
	Increase in employee entitlements	10,030	9,965	9,214	10,517
	Depreciation and amortisation expenses	8,792	8,214	11,684	10,456
	Mutually agreed write-downs	1,996	1,203	1,996	1,203
	Other non-cash expenses	890	2,428	552	2,893
Total expenses not requiring cash		21,708	21,810	23,446	25,069
<i>plus</i>	Cash provided by working capital items				
	(Increase)/Decrease in receivables	(11,195)	(8,400)	(12,118)	(10,201)
	(Increase)/Decrease in inventories	(598)	(460)	(649)	(465)
	(Increase)/Decrease in other financial assets	(419)	(376)	(767)	(1,111)
	(Increase)/Decrease in other non-financial assets	100	131	105	79
	Increase/(Decrease) in benefits, subsidies and grants payable	1,131	(3,029)	1,130	(3,028)
	Increase/(Decrease) in supplier payables	239	1,004	916	1,517
	Increase/(Decrease) in other provisions and payables	1,114	1,948	3,190	2,167
Total cash provided/(used by) working capital items		(9,628)	(9,182)	(8,193)	(11,042)
equals Net cash from/(used by) operating activities		5,680	(20,652)	4,435	(23,881)

Recognition, measurement and classification of cash and deposits

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

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

Reconciliation of changes in liabilities arising from financing activities

The following table shows changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. As this disclosure is required for the first time, comparatives are not shown.

Australian Government	Opening balance at 1 July 2017	Cash flows	Non-cash movements		Closing balance at 30 June 2018
			Acquisition	Other movements	
Australian currency on issue	73,623	1,942	-	-	75,565
Government securities	535,446	31,576	-	639	567,661
Loans	3,384	(308)	709	252	4,037
Other borrowings	7,525	(414)	1,281	425	8,817
Deposits held	34,761	(904)	-	(16)	33,841
Other debt	3,720	118	-	(745)	3,093
Dividends payable	(7)	-	-	-	(7)
Total	658,452	32,010	1,990	555	693,007

General Government Sector	Opening balance at 1 July 2017	Cash flows	Non-cash movements		Closing balance at 30 June 2018
			Acquisition	Other movements	
Australian currency on issue	-	-	-	-	-
Government securities	547,254	27,556	-	640	575,450
Loans	545	(205)	-	106	446
Other borrowings	1,628	(117)	136	(112)	1,535
Deposits held	218	163	-	-	381
Other debt	774	28	-	916	1,718
Dividends payable	-	-	-	-	-
Total	550,419	27,425	136	1,550	579,530

Note 9: Business combinations

Significant business combinations for the year ended 30 June 2018, were as follows:

Acquisition of Snowy Hydro Limited (SHL)

On 29 June 2018 (the acquisition date), the Australian Government acquired full ownership of SHL from the New South Wales (NSW) and Victorian Governments, increasing the Australian Government's ownership from 13 per cent to 100 per cent. SHL is a water manager and integrated energy business. The acquisition by the Australian Government will support the transition of Australia's energy system.

Under the agreement, the NSW and Victorian Governments received \$4,154 million and \$2,077 million respectively, based on an agreed enterprise value for SHL of \$7,800 million. After adjusting for interim dividends of \$117 million paid by SHL to NSW and Victoria, the Australian Government paid \$6,114 million on 29 June 2018, consisting of \$6,015 million (87% of the agreed equity value) plus \$99 million for the right to the States' final dividend.

The Australian Government's existing 13 per cent interest in SHL was valued at \$899 million at the acquisition date. At 30 June 2017, the fair value of the 13 per cent investment was \$800 million. Fair value gains and losses are recognised as an 'other economic flow'. Combined with the equity consideration paid, the Australian Government's 100% investment in SHL was valued at \$7,013 million on acquisition.

SHL has been classified as a Public Non-Financial Corporation. Consistent with applicable accounting standards, the Australian Government's ownership interest in SHL is recorded as an investment at fair value in the General Government Sector (refer Note 5C). At the Australian Government level, the investment in SHL is eliminated and replaced with the line-by-line consolidation of SHL's identified assets and liabilities at fair value. The following table summarises the estimated fair values of the separately identified assets acquired and liabilities assumed at the date of acquisition.

	2018 \$m
Fair value of assets acquired and liabilities assumed	
Cash	33
Receivables(a)	429
Investments	264
Property, plant and equipment	7,045
Intangibles - computer software	43
Inventories	20
Other non-financial assets	9
Loans	(709)
Other borrowings - leases	(77)
Other interest bearing liabilities	(159)
Employee liabilities	(68)
Supplier payables	(312)
Other payables and provisions	(40)
Net identifiable assets and liabilities (excluding other intangibles)	6,478
Goodwill and other intangibles(b)	535

- (a) The gross contractual amounts receivable was valued at \$456 million at the acquisition date, of which \$26 million has been provided for as not expected to be collected.
- (b) Goodwill and other intangibles include cost of customer acquisition and benefits from energy sector reforms. SHL had identified \$153 million as the value of the cost of customer acquisition in its subsidiaries.

The difference between the consideration paid and the net identifiable assets and liabilities of SHL is recorded as goodwill and other intangibles. This represents the difference between SHL's equity value as a business and the value of the individual assets and liabilities reported by SHL. The equity value is based on expected future cash flows. The acquisition of SHL is also expected to provide benefits from energy sector reforms to ensure reliable and affordable energy for businesses and households. These benefits have not been separately recognised in the CFS. Goodwill and other intangibles are reported as 'other intangibles' in Note 5D.

As SHL was acquired on 29 June 2018, its contribution to the Australian Government's consolidated statement of comprehensive income for the year ended 30 June 2018 was immaterial.

At the date of acquisition, SHL was involved in various legal proceedings not expected to have a material impact on SHL's financial position or results of operations. Contingent liabilities are represented by:

- SHL has entered into a number of bank guarantees in relation to operating within the national electricity market and for rental properties in Sydney and Melbourne to the value of \$81 million.
- Liability for Former Scheme Sites has been extinguished except to the extent of any contaminated former sites. These contaminated sites are being rehabilitated as they are identified.

As SHL was acquired on 29 June 2018, the Consolidated Statement of Comprehensive Income does not include revenues and expenses associated with SHL. The Australian Government's previous 13 per cent interest in SHL's 2017-18 financial performance (\$27 million) was reported as an 'other economic flow'. SHL reported an operating result of \$210 million in 2017-18 with revenue from the sales of goods of \$2,589 million.

Note 10: Risks

The assets and liabilities in the CFS incorporate assumptions and judgements based on the best information available at the date of signing. The judgements and estimates made by Australian Government entities that have the most significant impact on the amounts recorded in the financial statements are disclosed in Note 1.9. In addition to these, there are a range of factors that may influence the amounts ultimately realised or settled in future years that relate to past events. The disclosure of these factors increases the transparency of the risks to the Government's financial position. These risks have been grouped into the following disclosures:

- **Contingencies** (refer Note 10A) comprise possible obligations or assets arising from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events.
- **Financial instrument market risk** disclosures (refer Note 10B) concern the contractual arrangements that the Australian Government has entered into for policy, liquidity or financing purposes.
- **Defined benefit superannuation plans** disclosures (refer Note 10C) explain the characteristics of the major defined benefit plans and risks associated with them, and describes how the plans may affect the amount, timing and uncertainty of the Australian Government's future cash flows. The Future Fund is a long-term investment fund that is designed to enhance the ability of the Australian Government to discharge unfunded superannuation liabilities.

Consistent with the amounts recognised in the financial statements, the disclosures are based on the policies, events and arrangements up to the reporting date and do not include policy decisions announced in the 2017-18 Budget papers which have not yet been enacted or implemented.

Note 10A: Contingencies

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

Indemnities, guarantees and warranties

An indemnity is a legally binding promise whereby the Australian Government undertakes to accept the risk of loss or damage another party may suffer. A guarantee is a promise whereby the Australian Government assumes responsibility for the debt, or performance obligations of, another party on default of its obligation. A guarantee may also involve a promise to provide a loan if certain future conditions are met. A warranty is a promise whereby the Australian Government provides certain assurances to the other party to an arrangement.

Non-corporate Australian Government entities are bound by Section 60 of the PGPA Act in relation to the provision of indemnities, guarantees or warranties on behalf of the Australian Government. Arrangements above \$30 million or considered more than remote must be approved by the Cabinet, the National Security Committee of the Cabinet, the Prime Minister, or by a written determination of the Minister for Finance. Corporate Australian Government entities are legally separate from the Commonwealth and may act in their own right subject to rules that may be prescribed under Section 61 of the PGPA Act.

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

	General Government		Australian Government	
	2018 \$m	2017 \$m	2018 \$m	2017 \$m
Opening balance as at 1 July	35,117	32,163	36,336	33,299
Increases	3,380	3,509	3,470	3,945
Re-measurement	562	(488)	475	(496)
Liabilities/assets crystallised	(7)	(35)	(7)	(35)
Expired	(31)	(32)	(183)	(377)
As at 30 June	39,021	35,117	40,091	36,336

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

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

Unquantifiable indemnities, guarantees and warranties	Administering portfolio
Garrison and welfare services and immigration detention services. Comprising limited liability contracts negotiated with providers of garrison and welfare services at regional processing centres; and immigration detention and related services in Australia.	Home Affairs
Officers and directors assisting the Commonwealth in relation to asset sales, reviews and other arrangements. From time to time, the Australian Government has provided warranties, undertakings and indemnities to directors, committee members, advisers, officers and/or staff of organisations for activities undertaken in good faith in assisting the Commonwealth in relation to asset sales, reviews and other arrangements.	Various

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

Significant but remote indemnities, guarantees and warranties	Administering portfolio
Financial Claims Scheme – Deposits. Authorised under the <i>Banking Act 1959</i> and guarantees deposits up to \$250,000 at eligible authorised deposit-taking institutions. When last estimated as at 31 December 2017, deposits eligible for coverage under the Financial Claims Scheme were approximately \$890 billion (31 December 2016: \$850 billion).	Treasury
Financial Claims Scheme – Insurance. The Policyholder Compensation Facility established under the <i>Insurance Act 1973</i> provides a mechanism for making payments to eligible beneficiaries with a valid claim against a failed general insurer.	Treasury

The Australian Government has also entered into significant but remote guarantees in respect of nbn Co's financial obligations to Telstra and Optus, further details of which are contained in the 2017-18 annual report for the Department of Communications and the Arts. Other guarantees and indemnities considered remote are excluded from this disclosure.

Uncalled shares and capital subscriptions

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

	General Government		Australian Government	
	2018 \$m	2017 \$m	2018 \$m	2017 \$m
Opening balance as at 1 July	18,029	18,664	18,094	18,731
Re-measurement	741	(635)	745	(637)
As at 30 June	18,770	18,029	18,839	18,094

Claims and proceedings

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

	General Government		Australian Government	
	2018 \$m	2017 \$m	2018 \$m	2017 \$m
Opening balance as at 1 July	132	184	137	186
Increases	13	33	15	43
Re-measurement	10	(66)	12	(65)
Liabilities/assets crystallised	(17)	(14)	(18)	(20)
Expired	(16)	(5)	(20)	(7)
As at 30 June	122	132	126	137

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

The National Redress Scheme for *Institutional Child Sexual Abuse Act 2018* received royal assent on 23 May 2018 and commenced on 1 July 2018. The scheme provides people who have experienced institutional child sexual abuse access to counselling and psychological services, a direct personal response from the responsible institution, and a monetary payment. Costs associated with the scheme are considered unquantifiable at this time.

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

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

Remediation and decontamination

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

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

Other contingencies

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

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

	General Government		Australian Government	
	2018 \$m	2017 \$m	2018 \$m	2017 \$m
Opening balance as at 1 July	5,417	4,538	198,281	229,018
Increases	1,776	2,300	1,776	2,301
Re-measurement	662	547	31,109	(31,070)
Expired	(1,407)	(1,968)	(1,407)	(1,968)
As at 30 June	6,448	5,417	229,759	198,281

Contingent assets

The following table reconciles the movement in quantifiable contingent assets.

	General Government		Australian Government	
	2018 \$m	2017 \$m	2018 \$m	2017 \$m
Opening balance as at 1 July	141	127	150	137
Increases	30	45	36	48
Re-measurement	25	41	38	39
Liabilities/assets crystallised	(68)	(63)	(68)	(62)
Expired	(2)	(9)	(6)	(12)
As at 30 June	126	141	150	150

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

Note 10B: Financial instruments

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

	General Government		Australian Government	
	2018 \$m	2017 \$m	2018 \$m	2017 \$m
FINANCIAL ASSETS				
Loans and receivables				
Interest income	588	386	2,153	1,882
Net gain/(loss) on disposal	-	-	-	-
Net foreign exchange gain/(loss)	26	(33)	16	(35)
Write-down and impairment	(311)	(580)	(311)	(587)
Interest expenses	-	-	-	-
Net gain/(loss)	303	(227)	1,858	1,260
Available for sale				
Interest income	28	16	49	35
Dividend income	1,011	1,568	97	50
Net gain/(loss) on disposal	-	14	-	14
Net foreign exchange gain/(loss)	273	(406)	273	(406)
Fair value movements in equity	(869)	(5,324)	515	(106)
Net gain/(loss)	443	(4,132)	934	(413)
Fair value through profit and loss				
Interest income	5,081	2,768	5,032	2,480
Net gain/(loss) on disposal	4,316	4,976	4,057	4,409
Dividend income	4,075	3,430	4,150	3,506
Net foreign exchange gain/(loss)	(1,269)	1,653	1,992	365
Write-down and impairment	(490)	(6,237)	(534)	(6,241)
Interest expenses	(186)	-	(186)	-
Other gains/(losses)	5,316	27	5,373	86
Net gain/(loss)	16,843	6,617	19,884	4,605
Held to maturity				
Interest income	93	128	98	131
Net foreign exchange gain/(loss)	-	(1)	-	(1)
Net gain/(loss)	93	127	98	130
FINANCIAL LIABILITIES				
Held at fair value through profit and loss				
Interest expenses	(19,945)	(17,078)	(19,843)	(17,145)
Net foreign exchange gain/(loss)	-	5	-	5
Other gains/(losses)	502	19,380	503	19,381
Net gain/(loss)	(19,443)	2,307	(19,340)	2,241
Other financial liabilities				
Interest expenses	(314)	(451)	(1,603)	(982)
Net foreign exchange gain/(loss)	(299)	222	(299)	222
Net gain/(loss)	(613)	(229)	(1,902)	(760)

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

The Australian Government is exposed to the following financial risks:

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

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

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

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

General Government Sector

The GGS holds financial instruments for:

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

Financing and liquidity management

Australian Government entities subject to the PGPA Act are required to draw down monies on an 'as-needed' basis. As a general principle, Commonwealth GGS entities cannot invest public monies except as delegated under section 58 of the PGPA Act or authorised by legislation. Corporate Commonwealth entities subject to the PGPA Act are also restricted in how they can invest monies that are surplus to operational requirements. As a general principle, surplus money may only be placed on deposit with a bank or invested directly in securities issued or guaranteed by the Australian Government, a state or a territory, unless an exemption is approved by the Minister for Finance. Financial assets held by the majority of GGS entities are non-interest bearing, including trade receivables, or have fixed interest and do not fluctuate due to changes in the market interest rate.

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

Investment Funds

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

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

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

Advances and investments for policy purposes

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

- loans and investments to facilitate increased flows of finance into certain industries or sectors and loans provided on concessional terms in pursuit of policy objectives. For example, income contingent student and other loans, and loans to fund critical infrastructure;
- loans to state and territory governments under previous Commonwealth-State financing arrangements; and
- equity contributions to public corporations for infrastructure development.

International commitments

Australia has shareholdings in international financial institutions (IFIs) and multilateral development banks, including the IMF and the World Bank Group's International Bank for Reconstruction and Development, the International Development Association, the International Finance Corporation and the Multilateral Investment Guarantee Agency. Australia also has shareholdings in the Asian Development Bank, the Asian Infrastructure Investment Bank and the European Bank for Reconstruction and Development. In addition to the shareholdings recognised as financial assets, Australia conducts financial transactions with these institutions to manage existing obligations.

Public Financial Corporations

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

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

Public Non-financial Corporations

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

(b) Interest rate risk

Exposure

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

	2018			Total \$m
	Fixed interest rate \$m	Floating interest rate \$m	Non- interest bearing \$m	
Financial assets				
Advances paid and receivables (non-statutory)	7,143	44,014	8,173	59,330
<i>Investments, loans and placements:</i>				
Deposits	28,569	500	-	29,069
Government securities	142,959	39	-	142,998
Residential mortgage-backed securities	-	-	-	-
Collective investment vehicles	1,413	-	66,446	67,859
Other interest bearing securities	35,918	9,546	393	45,857
Total financial assets	216,002	54,099	75,012	345,113
Financial liabilities				
Deposits held	33,841	-	-	33,841
Government securities	567,661	-	-	567,661
Loans	2,932	2,007	10,242	15,181
Total financial liabilities	604,434	2,007	10,242	616,683
Net exposure to interest rate risk	(388,432)	52,092	64,770	(271,570)

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

	2017			Total \$m
	Fixed interest rate \$m	Floating interest rate \$m	Non- interest bearing \$m	
Financial assets				
Advances paid and receivables (non-statutory)	5,455	40,076	6,753	52,284
<i>Investments, loans and placements:</i>				
Deposits	25,483	268	-	25,751
Government securities	150,557	116	-	150,673
Residential mortgage-backed securities	-	1,927	-	1,927
Collective investment vehicles	827	-	56,222	57,049
Other interest bearing securities	39,032	8,795	191	48,018
Total financial assets	221,354	51,182	63,166	335,702
Financial liabilities				
Deposits held	34,761	-	-	34,761
Government securities	535,445	-	-	535,445
Loans	2,594	1,829	9,677	14,100
Total financial liabilities	572,800	1,829	9,677	584,306
Net exposure to interest rate risk	(351,446)	49,353	53,489	(248,604)

Sensitivity

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

	Impact on operating result and net worth			
	2018		2017	
	+ 20 basis points \$m	- 20 basis points \$m	+ 30 basis points \$m	- 30 basis points \$m
Individually material exposures				
Financial assets				
Investment funds	(432)	398	(571)	587
RBA Government securities	(85)	85	(133)	133
Financial liabilities				
Government securities	7,123	(7,278)	9,685	(9,991)

In the above sensitivity analysis, there is an equivalent impact on operating result and net worth as the identified instruments are not classified as 'available for sale'.

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

Management of interest rate risk

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

The Future Fund's investment managers utilise interest rate derivative contracts to manage the exposure to interest rates and to ensure it remains within approved limits. At 30 June 2018, the notional value of open futures contracts and swaps totalled \$20,503 million (2017: \$17,598 million).

The other investment funds had open positions in exchange traded interest rate futures contracts and interest rate swap agreements at the reporting date. The notional value of investments in 'sell international interest rate futures contracts' was negative \$2,404 million (2017: negative \$3,044 million).

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

(c) Foreign exchange risk

Exposure

The Australian Government's main exposures to foreign exchange risk are reflected in the foreign currency investments of the RBA and the investment funds, foreign currency facilities provided by EFIC, and in the value of financial assets and liabilities held with IFIs and development banks.

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

	Foreign currency	
	2018 \$m	2017 \$m
Financial assets		
Advances paid and receivables	2,258	2,644
<i>Investments, loans and placements:</i>		
Deposits	24,177	20,534
Government securities	46,520	57,857
International monetary fund quota	17,616	17,005
Collective investment vehicles	44,846	40,385
Other interest bearing securities	21,892	20,686
Equity investments	44,104	33,688
Total financial assets	201,413	192,799
Financial liabilities		
Loans	11,186	10,949
Other interest bearing liabilities	7,943	7,387
Total financial liabilities	19,129	18,336
Net foreign exchange holdings	182,284	174,463

The foreign exchange holdings of the RBA, the investment funds and EFIC are in multiple currencies but predominantly USD while the financial assets and liabilities held with IFIs and development banks are denominated in US dollars (USD), Euros (EUR) and Special Drawing Rights (SDR).

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

Sensitivity

Given the Australian Government's net holdings of foreign currency assets, an appreciation in the Australian dollar exchange rate results in valuation losses, while a depreciation leads to valuation gains. The following table provides a sensitivity analysis for the individual foreign exchange rate exposures where the variability is material to the Australian Government. The analysis is based on the foreign exchange standardised rate of +/- 9.2 per cent (2017: 10.2 per cent) applied to the value of the Australian dollar exchange rate as at 30 June 2018.

	Impact on operating result and net worth			
	2018		2017	
	+ 9.2 per cent \$m	- 9.2 per cent \$m	+ 10.2 per cent \$m	- 10.2 per cent \$m
Individually material exposures				
Foreign financial assets				
Investment funds	(7,241)	7,400	(6,931)	6,794
RBA Government securities	(4,504)	5,505	(4,951)	6,051
IMF and IFI Investments	(1,424)	1,712	(1,472)	1,807
Foreign financial liabilities				
IMF SDR and loans liabilities	600	(499)	642	(522)

Management of foreign exchange risk

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

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

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

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

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

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

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

	2018 \$m	2017 \$m
Forward exchange contracts and foreign currency swaps		
Sell foreign currency	(118,045)	(123,148)
Purchase foreign currency	51,806	57,186
Net forward exchange contracts and foreign currency swaps	(66,239)	(65,962)

(d) Other price risk

Exposure

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

	2018 \$m	2017 \$m
Equity price risk exposure		
Domestic equities and managed investment schemes	10,482	8,676
International equities and managed investment schemes	40,143	30,364
Total equity price risk exposure	50,625	39,040

The investment funds are also exposed to other price risks arising from investments in Collective Investment Vehicles.

Sensitivity

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

	Impact on operating result and net worth			
	2018		2017	
	+ 20 & 15 per cent \$m	- 20 & 15 per cent \$m	+ 20 & 15 per cent \$m	- 20 & 15 per cent \$m
Individually material exposures				
Domestic equities	3,638	(3,638)	2,979	(2,955)
International equities	12,874	(11,959)	10,779	(10,278)
Total	16,512	(15,597)	13,758	(13,233)

Management of other price risk

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

	2018		2017	
	Notional value \$m	Fair value \$m	Notional value \$m	Fair value \$m
Buy domestic equity futures contract	83	2	53	-
Sell domestic equity futures contract	(9)	-	-	-
Buy international equity futures contract	663	(19)	445	(2)
Sell international equity futures contract	(597)	11	(24)	-
International volatility index put options	-	-	(1)	-
Domestic equity index call options	-	-	168	3
International equity index put options	(948)	6	(725)	19
International equity index call options	11,584	422	5,665	387
Domestic exchange traded warrants	-	-	7	1
International exchange traded warrants	8	3	10	1
International over the counter warrants	-	-	248	208
Total	10,784	425	5,846	617

Note 10C: Defined benefit superannuation plans

Accounting policy

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

Superannuation liabilities are calculated annually as the present value of future benefit obligations less the fair value of scheme assets. The rate used to discount future benefits is determined by reference to the long-term government bond rate. The long term government bond rate decreased from between 2.7 and 3.5 per cent at 30 June 2017 to between 2.7 and 3.1 per cent at 30 June 2018. This drove the increase in the superannuation liability in comparison to the prior year.

Overview of schemes

Civilian GGS employees will usually be members of the Commonwealth Superannuation Scheme (CSS), Public Sector Superannuation Scheme (PSS) or the Public Sector Superannuation Accumulation Plan (PSSap). The PSS and the CSS are closed to new members, with the PSSap available to most new employees who commenced employment on or after 1 July 2005. The CSS and PSS provide defined benefits. The PSSap provides fully funded accumulation benefits to members, with no ongoing liability to the Australian Government. In this disclosure, unless otherwise specified, reference to the CSS includes both the CSS 1976 scheme and the preceding CSS 1922 scheme.

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

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

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

Scheme title	Responsible entities
AvSuper ^(a)	Airservices Australia
Australia Post Superannuation Scheme (APSS) ^(a)	Australia Post Corporation
State Authorities Superannuation Scheme (SASS), State Superannuation Scheme (SSS), State Authorities Non contributory Superannuation Scheme (SANCS) ^(a)	Australian Rail Track Corporation-
Australian Submarine Corporation Superannuation Fund (ASCSF)	ASC Pty Ltd
Reserve Bank of Australia Officers' Superannuation Fund (OSF) and UK Pension Scheme (UKPS) ^(a)	RBA
Energy Industries Superannuation Scheme (EISS), State Superannuation Scheme (SSS) and State Authorities Non-contributory Superannuation Scheme (SANCS) ^{(a)(b)}	Snowy Hydro Limited (SHL)

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

(b) SHL was fully acquired as at 29 June 2018. Refer to Note 9.

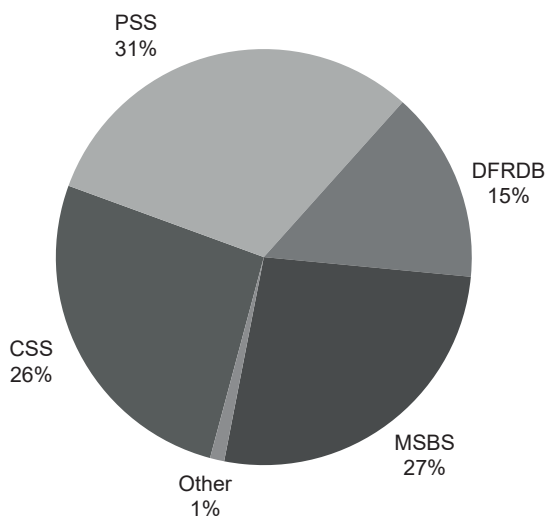
For the purposes of this whole of government disclosure, the smaller schemes have been grouped under 'other'.

Composition

As at 30 June 2018, the composition of the Australian Government's net liability for the defined benefit schemes (as reported in Note 6F) was as follows:

Scheme	General Government		Australian Government	
	2018 \$m	2017 \$m	2018 \$m	2017 \$m
Commonwealth Superannuation Scheme (CSS)	82,894	82,539	82,894	82,539
Public Sector Superannuation Scheme (PSS)	97,480	87,317	97,480	87,317
Defence Force Retirement and Death Benefits Scheme (DFRDB)	46,714	43,503	46,714	43,503
Military Superannuation Benefits Scheme (MSBS)	83,344	63,450	83,344	63,450
Other schemes	3,004	2,568	3,352	2,910
Other superannuation liabilities	59	82	129	80
Total superannuation provision	313,495	279,459	313,913	279,799

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



The defined benefit plan asset of \$827 million reported in Note 5B (2017: \$496 million) relates to certain schemes sponsored by public corporations (included in 'other').

Regulatory framework

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

Scheme	Enabling Act	Period open for new members	Requirement
CSS	<i>Superannuation Act 1976</i>	1 July 1976 to 30 June 1990	<i>Compliance with the Superannuation Industry (Supervision) Act 1993.</i>
PSS	<i>Superannuation Act 1990</i>	1 July 1990 to 30 June 2005	
MSBS	<i>Military Superannuation and Benefits Act 1991</i>	1 October 1991 to 30 June 2016	
DFRDB	<i>Defence Force Retirement and Death Benefits Act 1973</i>	1 October 1972 to 30 September 1991	<i>Exempt from Superannuation Industry (Supervision) Act 1993.</i>

Funding arrangements

The funding arrangements for the various schemes are as follows:

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

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

Entitlements

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

Scheme	Benefits paid
CSS	<p>Employer financed indexed pension defined by a set formula based on the member's age at retirement, years of contributory service and final superannuation salary. Indexation occurs twice yearly (January and July) in line with changes in the CPI.</p> <p>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.</p> <p>Members who resign before age 55 can claim a preserved resignation benefit on or after reaching that age. In this case, the indexed pension is calculated by applying age based factors to the amount of two and a half times the member's accumulated basic member contributions and interest.</p>
PSS	<p>On retirement a lump sum benefit is payable based on the member's length of contributory membership, their rate of member contributions and final average salary (average of a member's superannuation salary on their last three birthdays).</p> <p>Members can convert 50 per cent or more of their lump sum to a lifetime indexed pension based on the member's age, indexed twice yearly (January and July) in line with changes in the CPI.</p> <p>Where a member resigns before age 55, generally the member's lump sum benefit at that time is crystallised with the funded component of the benefit accumulating with interest and the unfunded component accumulating with changes in the CPI, until the benefit becomes payable.</p>
MSBS	<p>Benefits payable comprise a lump sum of accumulated member contributions and an employer financed defined benefit.</p> <p>The defined benefit is calculated on the basis of the member's final average salary and length of contributory service.</p> <p>Benefits arising from member's contributions, the employer three per cent productivity contribution and amounts notionally carried over from the DFRDB are determined by the value of contributions and investment returns.</p> <p>May be taken as a lump sum or as a pension or as a combination of lump sum and pension.</p>
DFRDB	<p>Length of service is the primary factor that determines benefit entitlement.</p> <p>Members who retire from the Australian Defence Force (Defence) after 20 years of effective service (or after 15 years of service at retirement age for rank) are entitled to a pension based on a percentage of their annual pay on retirement.</p> <p>Members who have less than 20 years of service but have not reached their compulsory retiring age for rank are entitled to a refund of their contributions, a Superannuation Guarantee amount and a productivity benefit; and if applicable, a gratuity based on completed years of service.</p> <p>Members are entitled to a productivity benefit under the Defence Force (Superannuation) (Productivity Benefit) Determination 1988 (issued under the <i>Defence Act 1903</i>). The amount of this productivity benefit varies according to the circumstances under which an individual member has left Defence. It is paid at the same time as DFRDB Scheme benefits are paid.</p>

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

Governance

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

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

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

Risks

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

Assumptions

For the defined benefit obligation, assumptions have been made regarding rates of retirement, death (for active, preserved and pension members), mortality improvements, invalidity, resignation, retrenchment, retention and take up rates of pensions in the schemes. Assumptions have also been made for the ages of spouses and rates of member contributions. These assumptions are consistent to those used within the 2017 Long Term Cost Reports (LTCRs).

Membership data for the CSS, PSS, DFRDB and MSBS as at 30 June 2017 was projected forward to 30 June 2018 applying assumptions in accordance with the LTCRs and adjusted to recognise the difference between actual benefit payments and assumed decrements. Members' account balances were increased to be consistent with the estimated level of earning rates prevailing at 30 June 2018.

For the fair value of plan assets, assumptions have been made as to the expected rate of return. For certain schemes, the fair value of scheme assets as at 30 June 2018 was estimated using the pre-30 June 2018 fair value of scheme assets and adjusted for subsequent cash flows.

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

Reconciliation of the present value of the defined benefit obligation for 2017-18

Scheme	2018				
	CSS \$m	PSS \$m	DFRDB \$m	MSBS \$m	Other \$m
Reconciliation of the present value of the defined benefit obligation					
Opening present value	(85,328)	(104,950)	(43,503)	(71,747)	(12,183)
Current service cost	(138)	(2,747)	(122)	(2,971)	(423)
Productivity contributions	(12)	(183)	-	-	-
Interest cost	(2,490)	(3,640)	(1,450)	(2,553)	(299)
Contributions by scheme participants	(44)	(552)	-	(278)	5
<i>Actuarial gains/(losses) arising from:</i>					
Changes in demographic assumptions	(161)	947	(723)	(5,065)	(61)
Changes in financial assumptions	(945)	(6,750)	(2,996)	(8,660)	(115)
Liability experience	(427)	(464)	453	(2,247)	(13)
Other assumptions	-	-	-	-	(14)
Benefits paid	4,031	1,920	1,627	862	508
Taxes, premiums and expenses paid	2	28	-	-	-
Exchange rate gains/(losses)	-	-	-	-	(6)
Present value at 30 June	(85,512)	(116,391)	(46,714)	(92,659)	(12,601)
Reconciliation of the fair value of scheme assets					
Opening fair value	2,789	17,633	-	8,297	9,760
Changes in fair value of scheme assets:					
Plan asset acquired					
Interest income	77	609	-	295	239
Adjust for actual return on scheme assets	154	1,019	-	486	235
Actuarial gains/(losses)	-	-	-	-	(1)
Net appropriation from CRF	3,575	863	1,627	821	118
Employer contributions	12	183	-	-	159
Participant contributions	44	552	-	278	(3)
Net changes in fair value of scheme assets	-	-	-	-	68
Foreign currency exchange rate changes	-	-	-	-	3
Benefits paid	(4,031)	(1,920)	(1,627)	(862)	(527)
Taxes, premiums and expenses paid	(2)	(28)	-	-	(10)
Fair value at 30 June	2,618	18,911	-	9,315	10,041
Composition of scheme assets					
Australian equity	24.0%	24.0%	-	24.0%	11.1%
International equity	25.0%	25.0%	-	23.0%	24.6%
Fixed income	-	-	-	-	1.0%
Property	8.0%	8.0%	-	12.0%	3.5%
Private equity	6.0%	6.0%	-	7.0%	9.3%
Hedge funds	-	-	-	-	0.4%
Infrastructure	3.0%	3.0%	-	-	1.5%
Credit	-	-	-	-	2.6%
Debt instruments	4.0%	4.0%	-	-	17.2%
Diversified growth funds	-	-	-	-	0.3%
Other	15.0%	15.0%	-	16.0%	18.0%
Cash	15.0%	15.0%	-	18.0%	10.5%
Total	100%	100%	-	100%	100%
Principal actuarial assumptions at the reporting date					
Discount rate (active members)	2.9%	3.1%	3.0%	3.1%	3.1%
Discount rate (pensioners)	2.9%	3.1%	3.0%	3.1%	3.5%
Expected rate of return on plan assets	-	-	-	3.1%	-
Expected salary increase rate	2.0%	2.0%	4.0%	4.0%	2.0-4.0%
Expected pension increase rate	2.5%	2.5%	2.5%	2.5%	2.5-4.0%

Reconciliation of the present value of the defined benefit obligation for 2016-17

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

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 balance has been recalculated by changing the assumptions as outlined below, whilst retaining all other assumptions.

	Change in assumption	Impact on defined benefit obligation	
		Increase \$m	Decrease \$m
CSS			
Discount rate	0.5%	(5,055)	5,602
Salary growth rate	0.5%	92	(86)
Rate of CPI increase	0.5%	4,946	(4,519)
PSS			
Discount rate	0.5%	(10,401)	11,988
Salary growth rate	0.5%	2,425	(2,277)
Rate of CPI increase	0.5%	8,564	(7,681)
DFRDB and MSBS			
Discount rate	0.5%	(14,387)	17,013
Salary growth rate	0.5%	5,713	(5,487)
Rate of CPI increase	0.5%	13,813	(12,187)
Other			
Discount rate	0.5%	(385)	432
Salary growth rate	0.5%	295	(262)

Employer contributions

The following table shows the expected contributions for 2018-19 by scheme.

Scheme	2019 \$m
Commonwealth Superannuation Scheme	10
Public Sector Superannuation Scheme	163
Defence Force Retirement and Death Benefits Scheme	1,649
Military Superannuation Benefits Scheme	915
Other schemes	268

Maturity profile of defined benefit obligation

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

Scheme	Weighted average duration of the defined benefit obligation in years
Commonwealth Superannuation Scheme 1976	13.0 years
Commonwealth Superannuation Scheme 1922	7.3 years
Public Sector Superannuation Scheme	20.4 years
Defence Force Retirement and Death Benefits Scheme	17.5 years
Defence Forces Retirement Benefits Scheme	9.9 years
Military Superannuation Benefits Scheme	28.9 years
Other	12.8 years

Note 11: Related parties

Note 11A: Ministerial remuneration

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

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

Remuneration	2018 \$m	2017 \$m
Short-term employee benefits ^(a)	9.0	8.9
Post-employment benefits ^(b)	1.7	1.5
Total key management personnel remuneration	10.7	10.4

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

(b) Post-employment benefits comprise superannuation contributions and post-retirement travel.

The number of Cabinet Minister positions during the financial year was 24 (2017: 23).

Note 11B: Related party disclosures

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

Cabinet Ministers transact with the Government in respect of their remuneration (refer Note 11A), and fixed expense entitlements under the *Parliamentary Entitlements Act 1990*. Additionally, they or their close family members and bodies they control may transact with government on the same basis as other Australians, such as for the payment of taxes.

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

Transactions with superannuation funds represent contributions, and payments of benefits to members or their beneficiaries. These are made in accordance with the rules of the relevant fund. Contributions to the funds for Cabinet Ministers totalled \$1.7 million (2017: \$1.5 million). Further information about defined benefit funds are included at Note 10C.

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

In 2017-18, the High Court of Australia ruled that two Cabinet Ministers were ineligible to be elected as Parliamentarians. An inter-departmental advisory committee determined that the Cabinet Ministers performed their duties in good faith for a proper purpose and that it was difficult for the individuals at the time of nomination for the Parliament to know that they were ineligible for nomination.

Consequently, the costs incurred by these individuals have been waived. The amounts waived include salaries, superannuation and electorate allowances, as well as non-salary expenses, such as, staff expenses, office expenses and travel expenses.

Note 12: Events occurring after balance date

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

No significant events have occurred after reporting date that require the CFS to be adjusted as at 30 June 2018, nor have there been significant non-adjusting events that have occurred after reporting date.

Note 13: Reconciliations and explanations

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

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

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

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

- **Reconciliation to ABS GFS measures** (refer Note 13A) which compares the key financial measures contained in this financial report to the corresponding measures under the ABS GFS Manual and highlights the remaining differences between the two reporting frameworks;
- **Reconciliation to original budget** (refer Note 13B), also required by AASB 1055 Budgetary Reporting, which compares the reported results to the original budget for 2017-18 as outlined in May 2017 with explanations for key movements; and
- **Glossary of key fiscal aggregates** (refer Note 13C) which explains the key technical terms reported in the CFS and which are not common to financial reports prepared by other entities.

Note 13A: Reconciliations to ABS GFS measures

As detailed in Note 1, the ABS GFS Manual was updated with effect to the CFS from 1 July 2017. The new ABS GFS Manual 2015 incorporated changes sought by the International Monetary Fund (IMF) as outlined in IMF GFS Manual 2014.

These revisions were necessary to reflect changes to the international and Australian standards for compiling national accounts as GFS are a key input to those measures. Changes in the divergences between Australian Accounting Standards (AAS) and ABS GFS due to the implementation of the new ABS GFS Manual are detailed in the advice below.

Under AASB 1049, the financial statements are reconciled to the new ABS GFS Manual. As a result of the new manual the following divergences have been removed:

- (a) *Subscriptions to international organisations* – Under the previous ABS GFS Manual (2005), membership dues and subscription fees to international organisations (such as the International Development Association and Asian Development Fund) were classified as advances and recognised at nominal amount. Under the new ABS GFS Manual, these investments are to be treated as equity and recognised at fair value. This is consistent with existing treatment in the CFS.
- (b) *Provision for doubtful debts* - The new ABS GFS Manual treats provisions for doubtful debts as an offset to the asset in the balance sheet, consistent with the CFS. The previous ABS GFS Manual did not consider the creation of a provision to be an economic event and therefore excluded it from the balance sheet.
- (c) *Concessional loans* – For GFS purposes, concessional loans were previously recorded at nominal value. Consistent with accounting standard requirements, these loans are now discounted with reference to the market rate of a similar instrument.

The following divergences have been added or amended on adoption of the new ABS GFS Manual:

- (a) *Concessional loan expenses* – With the change in measurement of concessional loans, the ABS GFS Manual now recognises the concessional discount as an ‘other economic flow’. The CFS treats concessional elements as an expense.
- (b) *Loans and advances at amortised cost* - Under the new ABS GFS Manual, all loans and advances receivable are to be recorded at market value. The accounting standards permit certain loans to be designated at amortised cost. The impact of this divergence is not expected to be material as amortised cost minus any provisions for doubtful debts is considered a sufficient proxy for market value for non-traded loans.

The material differences in key fiscal aggregates between the CFS and the corresponding ABS GFS measures are shown in the following table for 2017-18.

The amounts reported may differ to the aggregates subsequently reported by the ABS in the 2017-18 GFS publication because of changes in methodology, differences in interpretation and/or updated information available subsequent to the release of the financial statements.

The 2018 key fiscal aggregates on the face of the financial statements reconcile to the corresponding ABS GFS measures as follows:

	2018				Australian
	GGS \$m	PNFC \$m	PFC \$m	Eliminations \$m	Government \$m
Reconciliation of net operating balance					
Reported net operating balance	(4,156)	(4,372)	1,043	(894)	(8,379)
Convergence differences:					
Unwinding of concessional interest costs(a)	(60)	-	-	-	(60)
Concessional interest costs(a)	226	-	-	-	226
Seigniorage(b)	(89)	-	-	-	(89)
Deferred tax assets and liabilities(c)	-	3	-	(3)	-
Dividends to GGS from other sectors(d)	617	(190)	(732)	305	-
Renewable Energy Certificates(e)	(1,234)	-	-	-	(1,234)
Total convergence differences	(540)	(187)	(732)	302	(1,157)
GFS net operating balance	(4,696)	(4,559)	311	(592)	(9,536)
Reconciliation of change in net worth					
Reported change in net worth	(26,741)	3,089	4,271	(6,694)	(26,075)
Convergence differences:					
Relating to net operating balance	(540)	(187)	(732)	302	(1,157)
Relating to other economic flows	(1,171)	(5,684)	(3,548)	9,203	(1,200)
Relating to transactions with owners	-	(2,837)	(10)	2,847	-
Total convergence differences	(1,711)	(8,708)	(4,290)	12,352	(2,357)
GFS total change in net worth	(28,452)	(5,619)	(19)	5,658	(28,432)
Reconciliation of net lending/(borrowing)					
Reported net lending/(borrowing)	(5,442)	(9,809)	1,047	(896)	(15,100)
Convergence differences:					
Relating to net operating balance	(540)	(187)	(732)	302	(1,157)
Total convergence differences	(540)	(187)	(732)	302	(1,157)
GFS net lending/(borrowing)	(5,982)	(9,996)	315	(594)	(16,257)
Reconciliation of net worth					
Reported net worth	(418,052)	29,513	26,305	(55,517)	(417,751)
Convergence differences:					
Investment in other sector entities(f)	166	-	-	(166)	-
Deferred tax assets(c)	-	(899)	5	894	-
Seigniorage(b)	(4,202)	-	-	-	(4,202)
Deferred tax liability(c)	-	673	-	(673)	-
Dividends(d)	617	-	(617)	-	-
Shares and other contributed capital(g)	-	(29,287)	(25,693)	55,462	482
Renewable Energy Certificates(e)	(5,108)	-	-	-	(5,108)
Total convergence differences	(8,527)	(29,513)	(26,305)	55,517	(8,828)
GFS net worth	(426,579)	-	-	-	(426,579)

Table note explanations follow the comparative table.

The following table provides the comparative 2017 reconciliation.

	2017				Australian Government
	GGS \$m	PNFC \$m	PFC Eliminations \$m		\$m
Reconciliation of net operating balance					
Reported net operating balance	(32,359)	(4,010)	977	(1,493)	(36,885)
Convergence differences:					
Unwinding of concessional interest costs(a)	(52)	-	-	-	(52)
Concessional interest costs(a)	167	-	-	-	167
Seigniorage(b)	(107)	-	-	-	(107)
Deferred tax assets and liabilities(c)	-	123	-	(123)	-
Dividends to GGS from other sectors(d)	1,936	(168)	(3,285)	1,517	-
Renewable Energy Certificates(e)	(974)	-	-	-	(974)
Total convergence differences	970	(45)	(3,285)	1,394	(966)
GFS net operating balance	(31,389)	(4,055)	(2,308)	(99)	(37,851)
Reconciliation of change in net worth					
Reported change in net worth	21,878	(3,348)	(715)	4,237	22,052
Convergence differences:					
Relating to net operating balance	970	(45)	(3,285)	1,394	(966)
Relating to other economic flows	9,747	(4,041)	3,962	1,873	11,541
Relating to transactions with owners	-	7,439	10	(7,449)	-
Total convergence differences	10,717	3,353	687	(4,182)	10,575
GFS total change in net worth	32,595	5	(28)	55	32,627
Reconciliation of net lending/(borrowing)					
Reported net lending/(borrowing)	(35,236)	(9,786)	932	(1,493)	(45,583)
Convergence differences:					
Relating to net operating balance	970	(45)	(3,285)	1,394	(966)
Total convergence differences	970	(45)	(3,285)	1,394	(966)
GFS net lending/(borrowing)	(34,266)	(9,831)	(2,353)	(99)	(46,549)
Reconciliation of net worth					
Reported net worth	(391,373)	23,808	22,756	(46,934)	(391,743)
Convergence differences:					
Investment in other sector entities(f)	(261)	-	-	261	-
Deferred tax assets(c)	-	(786)	(5)	791	-
Seigniorage(b)	(4,113)	-	-	-	(4,113)
Deferred tax liability(c)	-	557	-	(557)	-
Dividends(d)	1,936	-	(1,936)	-	-
Shares and other contributed capital(g)	-	(23,603)	(20,816)	46,439	2,020
Renewable Energy Certificates(e)	(4,378)	-	-	-	(4,378)
Total convergence differences	(6,816)	(23,832)	(22,757)	46,934	(6,471)
GFS net worth	(398,189)	(24)	(1)	-	(398,214)

The convergence differences consist of:

- Concessional interest costs* - With the change in measurement of concessional loans, the ABS GFS Manual now recognises the concessional discount as an 'other economic flow'. The CFS treats concessional elements as an expense.
- Seigniorage* - The financial statements treat the profit between the cost and sale of circulating coin (seigniorage) as revenue whereas the ABS GFS Manual treats circulating coin as a liability and the cost to produce the coins as an expense.
- Deferred tax assets and liabilities* - Deferred tax assets and liabilities are reported in the financial statements. The ABS GFS Manual does not recognise these items.

- (d) *Dividends to GGS from other sectors* - The financial statements treat dividends to the GGS as a distribution to owners whereas the ABS GFS Manual treats dividends to owners as an expense. The financial statements recognise the RBA dividends in the year profit was earned whereas the ABS GFS Manual recognises dividends when the Treasurer makes a determination.
- (e) *Renewable Energy Certificates (RECs)* - The financial statements recognise revenue from the surrender of RECs and expenses associated with the refund of shortfall charges. Under the ABS GFS Manual, the issuance and registration of RECs is considered to be government financial transactions resulting in the recognition of assets, liabilities, revenue and expenses.
- (f) *Investment in other sector entities* - The financial statements apply AASB 13 to the valuation of the GGS's investment in public corporations whereas the ABS GFS Manual values public corporations at their net assets unless the shares in a public corporation are publicly traded. A convergence difference arises where the application of AASB 13 results in a valuation other than net assets.
- (g) *Shares and other contributed capital* - The financial statements treat shares and other contributed capital in public corporations as part of net worth. The ABS GFS Manual deducts contributed capital in the calculation of net worth (with net worth calculated as assets less liabilities less shares and other contributed equity).

The ABS GFS Manual measures inventory at market value (rather than the lower of cost and net realisable value). It also does not recognise the provision for decommissioning/restoration costs. The above reconciliation has not been adjusted for these items on the basis of materiality and information availability. In net lending/(borrowing), the ABS GFS Manual recognises the auction and sale of spectrum licences at the time of allocation while these financial statements recognise the disposal of spectrum licences at the point of issuance. This can result in a temporary divergence in net lending/borrowing where the allocation and issuance occur in different years. While no divergence has been reported in the 2017-18 key fiscal aggregate and 2016-17 comparative, this may change as the ABS GFS statements are updated. In the cash flow statement, sales proceeds are recognised when received at sale or auction under both frameworks.

Reconciliation to Cash surplus/(deficit) is disclosed on the face of the cash flow statement.

Note 13B: Reconciliation to original budget

The following tables provide a comparison of the original 2017-18 Budget to the final actual results for the GGS, with explanations provided for major variances.

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

General government sector operating statement 2017-18

	2018 Actual \$m	Original budget(a) \$m	Budget variance \$m	Revised budget(b) \$m
Revenue from transactions				
Taxation revenue	427,245	415,428	11,817	428,469
Sales of goods and services	9,770	11,496	(1,726)	10,095
Interest income	3,317	4,397	(1,080)	3,663
Dividend income	5,086	3,517	1,569	3,797
Other	10,703	9,578	1,125	10,152
Total revenue	456,121	444,414	11,707	456,176
Expenses from transactions				
<i>Gross operating expenses</i>				
Wages and salaries	19,213	19,906	(693)	20,019
Superannuation	7,789	4,578	3,211	7,825
Depreciation and amortisation	8,790	9,226	(436)	8,861
Supply of goods and services	100,468	102,477	(2,009)	104,027
Other operating expenses	6,721	5,761	960	6,122
<i>Total gross operating expenses</i>	<i>142,981</i>	<i>141,948</i>	<i>1,033</i>	<i>146,854</i>
Superannuation interest expense	9,240	10,392	(1,152)	9,241
Interest expense	17,811	18,544	(733)	17,931
<i>Current transfers</i>				
Current grants	139,282	138,221	1,061	141,923
Subsidy expenses	11,224	12,064	(840)	11,719
Personal benefits	127,146	130,507	(3,361)	128,525
<i>Total current transfers</i>	<i>277,652</i>	<i>280,792</i>	<i>(3,140)</i>	<i>282,167</i>
<i>Capital transfers</i>				
Mutually agreed write-downs	1,996	1,429	567	2,013
Other capital grants	10,597	11,157	(560)	10,581
<i>Total capital transfers</i>	<i>12,593</i>	<i>12,586</i>	<i>7</i>	<i>12,594</i>
Total expenses	460,277	464,262	(3,985)	468,788
Net operating balance	(4,156)	(19,848)	15,692	(12,612)
Other economic flows - included in operating result				
Net write-down of assets	(8,108)	(9,310)	1,202	(8,907)
Net gain/(loss) from the sale of assets	7,477	3,301	4,176	3,549
Net foreign exchange gains/(losses)	(1,269)	(125)	(1,144)	(336)
Net swap interest gains/(losses)	61	-	61	247
Net fair value gains/(losses)	5,819	6,622	(803)	8,137
Net other gains/(losses)	(2,475)	(208)	(2,267)	6,539
Operating result	(2,651)	(19,567)	16,916	(3,383)
Other economic flows - through equity				
Will not be reclassified to operating result				
Revaluation of non-financial assets	2,420	-	2,420	-
Actuarial revaluations of superannuation	(25,685)	8	(25,693)	755
Other economic revaluations	44	(162)	206	(302)
May be reclassified to operating result				
Revaluation of equity investments	(869)	(6,693)	5,824	(2,043)
Comprehensive result	(26,741)	(26,414)	(327)	(4,973)
Net operating balance	(4,156)	(19,848)	15,692	(12,612)
less Net acquisition of non-financial assets				
Purchases of non-financial assets	13,735	13,582	153	13,199
less Sales of non-financial assets	4,260	4,041	219	3,658
less Depreciation and amortisation	8,790	9,226	(436)	8,861
plus Change in inventories	629	177	452	65
plus Other movements in non-financial assets	(28)	(8)	(20)	1
Total net acquisition of non-financial assets	1,286	484	802	748
Fiscal balance (Net lending/borrowing)	(5,442)	(20,331)	14,890	(13,360)

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

(b) Revised budget for 2017-18 in the 2018-19 Budget papers released in May 2018, presented on the same basis as the actual information to facilitate comparison.

Revenue

Line item	Variance	Explanation
Taxation	\$11.8b	<p>Total taxation revenue was \$11.8 billion higher than the original budget, driven by:</p> <ul style="list-style-type: none"> • higher company tax of \$6.3 billion, reflecting stronger than expected growth in corporate profitability; • higher individuals and other withholding taxes of \$1.7 billion, consistent with stronger than expected employment growth; and • higher superannuation fund taxes of \$2.4 billion, reflecting higher than expected capital gains.

Expenses

Line item	Variance	Explanation
Superannuation	\$3.2b	<p>Superannuation expenses were \$3.2 billion higher than the original budget, primarily due to the difference in discount rates used to calculate the superannuation liability for the CFS and the Budget.</p> <p>At Budget 2017-18, actuaries determined the long-term discount rate to be 6.0 per cent per annum. This rate reflects the average annual rate estimated to apply over the remainder of the term to maturity of the liability and the actuaries' view that short-term deviations are expected to be smoothed out in the longer term.</p> <p>For the CFS, the Australian Accounting Standards require the use of the long-term government bond rate that best matches each individual scheme's liability duration as at reporting date. The schemes' discount rates as at 30 June 2018 were between 2.7 and 3.1 per cent per annum. Lower discount rates result in a higher superannuation liability, higher superannuation expenses and lower nominal superannuation interest expense.</p>
Supply of goods and services	(\$2.0b)	<p>Supply of goods and services expenses were \$2.0 billion lower than the original budget, with variances relating to a number of entities. The largest variance related to plan payments under the National Disability Insurance Scheme (NDIS) (\$0.6 billion) reflecting lower than projected participant numbers in the NDIS.</p>
Personal benefits	(\$3.4b)	<p>Personal benefit expenses were \$3.4 billion lower than the original budget, primarily as a result of demographic changes and policy initiatives for Social Services programs and the impact of child care compliance measures.</p>

Other economic flows

Line item	Variance	Explanation
Net gains from sale of assets	\$4.2b	Net gains from sale of assets were \$4.2 billion higher than the original budget, primarily attributable to Future Fund gains on the sale of investments.
Other losses	\$2.3b	Other losses were \$2.3 billion higher than original budget, mainly relating to the actuarial revaluation of military compensation provisions.
Actuarial revaluations of superannuation	(\$25.7b)	The movement of \$25.7 billion in the value of the superannuation liability compared to original budget is a result of actuarial revaluations mainly reflecting the decline in the discount rate used to calculate the liability in the CFS (from a range between 2.7 and 3.5 per cent per annum as at 30 June 2017 to a range between 2.7 and 3.1 per cent per annum as at 30 June 2018). For Budget purposes, a long-term discount rate of 6.0 per annum is used.
Revaluation of equity investments	\$5.8b	Revaluation of equity investments was \$5.8 billion less than the original budget, relating to the movement in the net asset position of public corporations.

General government sector balance sheet as at 30 June 2018

	2018 Actual \$m	Original budget(a) \$m	Budget variance \$m	Revised budget(b) \$m
Assets				
<i>Financial assets</i>				
Cash and deposits	6,780	3,411	3,369	5,363
Advances paid	56,058	72,083	(16,025)	60,228
Other receivables and accrued revenue	49,860	49,813	47	49,312
Investments, loans and placements	190,612	170,989	19,623	180,232
Equity investments	112,490	92,706	19,784	107,533
Total financial assets	415,800	389,002	26,798	402,668
<i>Non-financial assets</i>				
Land	11,598	10,215	1,383	10,708
Buildings	26,322	25,883	439	26,091
Other plant, equipment and infrastructure (including specialist military equipment)	77,553	74,595	2,958	75,460
Intangibles	7,895	8,711	(816)	8,577
Investment property	173	164	9	159
Inventories	8,645	8,349	296	8,204
Heritage and cultural assets	11,619	11,412	207	11,669
Other non-financial assets	3,471	4,889	(1,418)	3,759
Total non-financial assets	147,276	144,218	3,058	144,627
Total assets	563,076	533,220	29,856	547,295
Liabilities				
<i>Interest bearing liabilities</i>				
Deposits held	381	217	164	218
Government securities	575,450	584,562	(9,112)	568,924
Loans	10,468	9,552	916	12,857
Other borrowings	1,524	1,569	(45)	1,588
Other interest bearing liabilities	7,589	5,513	2,076	3,238
Total interest bearing liabilities	595,412	601,414	(6,002)	586,825
<i>Provisions and payables</i>				
Superannuation liability	313,495	181,303	132,192	216,287
Other employee liabilities	19,829	18,560	1,269	18,533
Supplier payables	7,547	6,764	783	8,138
Personal benefits payable	2,758	3,024	(266)	2,952
Subsidies payable	602	439	163	548
Grants payable	3,068	3,434	(366)	3,312
Other payables	2,424	2,888	(464)	2,279
Other provisions	35,993	33,504	2,489	33,652
Total provisions and payables	385,716	249,915	135,801	285,701
Total liabilities	981,128	851,329	129,799	872,527
Net worth	(418,052)	(318,109)	(99,943)	(325,232)

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

(b) Revised budget for 2017-18 in the 2018-19 Budget papers released in May 2018, presented on the same basis as the actual information to facilitate comparison.

Assets

Line item	Variance	Explanation
Cash and deposits	\$3.4b	Cash and deposits were \$3.4 billion higher than the original budget. This variance was partly a result of a \$1.7 billion variance in NDIS cash and cash equivalents, due to lower than projected participants entering the NDIS, as well as the underutilisation of funds that had been made available to NDIS participants through their statements of support.
Advances paid	(\$16.0b)	Advances paid were \$16.0 billion lower than the original budget. This was driven by: <ul style="list-style-type: none"> • changes in actuarial assumptions and the Government bond rate for higher education loans (\$11.9 billion); and • nbn Co drawing down less than anticipated from a Commonwealth loan facility (\$3.8 billion).
Investments, loans and placements	\$19.6b	Investments were \$19.6 billion higher than the original budget. The key drivers were: <ul style="list-style-type: none"> • ongoing negotiations on the National Partnership Agreement for the DisabilityCare Australia Fund. As a consequence, only partial reimbursements were provided to the states and territories 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 the Parliament; and • the value of term deposit investments held by the AOFM as a result of operational considerations and fully divesting its Residential Mortgage-backed Securities portfolio.
Equity investments	\$19.8b	Equity investments were \$19.8 billion higher than the original budget driven by: <ul style="list-style-type: none"> • the acquisition of SHL (refer to Note 9); • higher value of investments managed by the Future Fund (\$6.0 billion); and • the change in the net asset position of the RBA (\$1.4 billion).
Non-financial assets	\$3.1b	Non-financial assets were \$3.1 billion higher than original budget. This is largely driven by higher infrastructure, plant and equipment, including specialist military equipment as a result of asset revaluations (\$3.0 billion).

Liabilities

Line item	Variance	Explanation
Government securities	(\$9.1b)	The fair value of Australian Government Securities managed by the Australian Office of Financial Management was \$9.1 billion lower than forecast in the original budget, primarily as a result of lower issuance activities for 2017-18 and differences in market rates as at 30 June 2018. In face value terms, Australian Government Securities on issue at 30 June 2018 was around \$8 billion lower than forecast in the original budget.
Superannuation liability	\$132.2b	The superannuation liability was \$132.2 billion higher than the original budget, primarily due to the lower discount rate used to calculate the liability in the CFS compared to the estimates (refer to the Superannuation expenses explanation).

General government sector cash flow statement 2017-18

	2018 Actual \$m	Original budget(a) \$m	Budget variance \$m	Revised budget(b) \$m
OPERATING ACTIVITIES				
Cash received				
Taxes received	418,053	404,302	13,751	416,354
Receipts from sales of goods and services	9,941	11,497	(1,556)	10,283
Interest receipts	3,434	3,233	201	3,458
Dividend receipts	5,407	3,996	1,411	4,565
Other receipts	8,745	9,104	(359)	9,138
Total cash received	445,580	432,133	13,447	443,798
Cash used				
Payments for employees	(27,969)	(28,553)	584	(28,843)
Payments for goods and services	(99,130)	(101,003)	1,873	(100,530)
Grants and subsidies paid	(161,868)	(161,202)	(666)	(164,524)
Interest paid	(16,568)	(16,589)	21	(16,586)
Personal benefits paid	(127,940)	(133,463)	5,523	(129,461)
Other payments	(6,425)	(5,369)	(1,056)	(5,840)
Total cash used	(439,900)	(446,179)	6,279	(445,783)
Net cash from/(used by) operating activities	5,680	(14,046)	19,726	(1,985)
INVESTING ACTIVITIES				
Investments in non-financial assets				
Sales of non-financial assets	1,325	1,361	(36)	1,348
Purchases of non-financial assets	(12,705)	(13,506)	801	(14,098)
Net cash from non-financial assets	(11,380)	(12,145)	765	(12,751)
Net cash flows from investments in financial assets for policy purposes	(20,041)	(22,221)	2,180	(22,373)
Net cash flows from investments in financial assets for liquidity purposes	(43)	10,475	(10,518)	8,636
Net cash from/(used by) investing activities	(31,464)	(23,890)	(7,574)	(26,487)
FINANCING ACTIVITIES				
Cash flows from financing activities				
Net cash received				
Borrowings	30,564	41,366	(10,802)	31,639
Other financing	2,696	-	2,696	1,881
Net cash received	33,260	41,366	(8,106)	33,520
Net cash used				
Other financing	(5,836)	(3,427)	(2,409)	(4,824)
Net cash used	(5,836)	(3,427)	(2,409)	(4,824)
Net cash flows from financing activities	27,424	37,939	(10,515)	28,696
Net (decrease)/increase in cash held	1,640	3	1,637	224
Cash at beginning of year	5,140	3,408	1,732	5,140
Cash at end of year	6,780	3,411	3,369	5,364
Key fiscal aggregate				
Net cash flows from operating activities	5,680	(14,046)	19,726	(1,985)
Net cash flows from investments in non-financial assets	(11,380)	(12,145)	765	(12,751)
Cash surplus/(deficit)	(5,700)	(26,191)	20,491	(14,735)

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

(b) Revised budget for 2017-18 in the 2018-19 Budget papers released in May 2018, presented on the same basis as the actual information to facilitate comparison.

Note 13C: Glossary of key fiscal aggregates

Balance sheet

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

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

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

Fiscal balance

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

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

Mutually agreed bad debts

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

Net actuarial gains

Includes actuarial gains and losses on defined benefits superannuation plans.

Net financial liabilities

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

Net financial worth

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

Net lending/borrowing

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

Net other economic flows

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

Net operating balance

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

Net worth

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

Operating result

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

Operating statement

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

Transactions

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

Unilaterally determined bad debts

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

Note 14: Audit expenses

With the exception of a small number of entities, audit services within the reporting entity are provided by the Auditor-General. The cost of these services, which include performance and financial statement audits, totalled \$75.4 million (2017: \$74.7 million). The audit of the CFS cost \$0.7 million (2017: \$0.7 million).

Note 15: List of Australian Government reporting entities

The following is a list of Australian Government reporting entities which have been consolidated for the purposes of the financial report. Unless otherwise noted, all such entities are wholly owned. The list is based on the Australian Government Administrative Arrangement Orders in place at 30 June 2018.

Agriculture and Water Resources Portfolio

General Government:

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

Attorney-General's Portfolio

General Government:

Administrative Appeals Tribunal	High Court of Australia
Attorney-General's Department	National Archives of Australia
Australian Commission for Law Enforcement Integrity	Office of the Australian Information Commissioner
Australian Financial Security Authority	Office of the Commonwealth Ombudsman
Australian Human Rights Commission	Office of the Inspector-General of Intelligence and Security
Australian Law Reform Commission	Office of Parliamentary Counsel
Federal Court of Australia	Office of the Director of Public Prosecutions

Communications and the Arts Portfolio

General Government:

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

Public Non-Financial Corporations:

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

General Government:

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

Education and Training Portfolio

General Government:

Australian Curriculum, Assessment and Reporting Authority	Australian Skills Quality Authority (National Vocational Education and Training Regulator)
Australian Institute for Teaching and School Leadership Ltd (company limited by guarantee)	Department of Education and Training
Australian Research Council	Tertiary Education Quality and Standards Agency

Environment and Energy Portfolio

General Government:

Australian Renewable Energy Agency	Department of the Environment and Energy
Bureau of Meteorology	Director of National Parks
Clean Energy Finance Corporation	Great Barrier Reef Marine Park Authority
Clean Energy Regulator	Sydney Harbour Federation Trust
Climate Change Authority	

Public Non-Financial Corporation:

Snowy Hydro Limited

Finance Portfolio

General Government:

Australian Electoral Commission	Department of Finance
Commonwealth Superannuation Corporation	Future Fund Management Agency
Independent Parliamentary Expenses Authority ¹	

Public Non-Financial Corporations:

ASC Pty Ltd	Australian Naval Infrastructure Pty Ltd
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Foreign Affairs and Trade Portfolio

General Government:

Australian Centre for International Agricultural Research	Department of Foreign Affairs and Trade
Australian Secret Intelligence Service	Export Finance and Insurance Corporation (National Interest Account)
Australian Trade and Investment Commission	Tourism Australia

Public Financial Corporation:

Export Finance and Insurance Corporation

Health Portfolio

General Government:

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

¹ This entity became a Statutory Agency from 1 July 2017.

Home Affairs Portfolio

General Government:

Australian Criminal Intelligence Commission
Australian Federal Police
Australian Institute of Criminology

Australian Security Intelligence Organisation
Australian Transaction Reports and Analysis
Centre (AUSTRAC)
Department of Home Affairs

Human Services Portfolio

General Government:

Department of Human Services

Public Non-Financial Corporation:

Australian Hearing Services (Australian Hearing)

Infrastructure, Regional Development and Cities Portfolio

General Government:

Australian Maritime Safety Authority
Australian Transport Safety Bureau
Civil Aviation Safety Authority
Department of Infrastructure, Regional
Development and Cities

Infrastructure and Project Financing Agency
Infrastructure Australia
National Capital Authority
National Transport Commission
Norfolk Island Health and Residential Aged Care
Service

Public Non-Financial Corporations:

Airservices Australia
Australian Rail Track Corporation Limited

Moorebank Intermodal Company Limited
WSA Co Ltd

Jobs and Innovation Portfolio

General Government:

Asbestos Safety and Eradication Agency
Australian Building and Construction Commission
Australian Institute of Marine Science
Australian Nuclear Science and Technology
Organisation
Comcare
Commonwealth Scientific and Industrial Research
Organisation
Department of Industry, Innovation and Science
Department of Jobs and Small Business

Fair Work Commission
Fair Work Ombudsman and Registered
Organisations Commission Entity
Geoscience Australia
IP Australia
National Offshore Petroleum Safety and
Environmental Management Authority
Northern Australia Infrastructure Facility
Safe Work Australia
Seafarers Safety, Rehabilitation and
Compensation Authority (Seacare Authority)

Public Non-Financial Corporation:

ANSTO Nuclear Medicine Pty Ltd

Public Financial Corporations:

Coal Mining Industry (Long Service Leave
Funding) Corporation

CSIRO General Partner Pty Ltd
CSIRO General Partner 2 Pty Ltd

Prime Minister and Cabinet Portfolio

General Government:

Aboriginal Hostels Ltd (company limited by guarantee)	Indigenous Land Corporation
Australian Institute of Aboriginal and Torres Strait Islander Studies	National Australia Day Council Limited (company limited by guarantee)
Australian National Audit Office	Office of National Assessments
Australian Public Service Commission	Office of the Official Secretary to the Governor-General
Department of the Prime Minister and Cabinet	Outback Stores Pty Limited
Digital Transformation Agency	Torres Strait Regional Authority
Indigenous Business Australia	Workplace Gender Equality Agency

Public Non-Financial Corporation:

Voyages Indigenous Tourism Australia Pty Ltd

Social Services Portfolio

General Government:

Australian Institute of Family Studies	National Disability Insurance Scheme Launch
Department of Social Services	Transition Agency (National Disability Insurance Agency)

Treasury Portfolio

General Government:

Australian Bureau of Statistics	Inspector-General of Taxation
Australian Competition and Consumer Commission	National Competition Council
Australian Office of Financial Management	National Housing Finance and Investment Corporation
Australian Prudential Regulation Authority	Office of the Auditing and Assurance Standards Board
Australian Securities and Investments Commission	Office of the Australian Accounting Standards Board
Australian Taxation Office	Productivity Commission
Commonwealth Grants Commission	Royal Australian Mint
Financial Adviser Standards and Ethics Authority Ltd (company limited by guarantee)	
Department of the Treasury	

Public Financial Corporations:

Australian Reinsurance Pool Corporation	Reserve Bank of Australia
National Housing Finance and Investment Corporation (Bond Aggregator)	

Parliamentary Departments

General Government:

Department of Parliamentary Services	Department of the Senate
Department of the House of Representatives	Parliamentary Budget Office

Entity changes during 2017-18

Entities no longer consolidated

Corporations and Markets Advisory Committee (21 February 2018)

Entities newly controlled/established in 2017-18

Infrastructure and Project Financing Agency (1 July 2017)

National Housing Finance and Investment Corporation (30 June 2018)²

National Housing Finance and Investment Corporation (Bond Aggregator)
(30 June 2018)²

Regional Investment Corporation (8 March 2018)

Snowy Hydro Limited (29 June 2018)

WSA Co Ltd (7 August 2017)

Entities with name changes

Department of Home Affairs

(previously Department of Immigration and Border Protection)

Department of Infrastructure, Regional Development and Cities

(previously Department of Infrastructure and Regional Development)

Department of Jobs and Small Business

(previously Department of Employment)

Wine Australia

(previously Australian Grape and Wine Authority)

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

² The National Housing Finance and Investment Corporation has not prepared financial statements for 2017-18 as no financial or operating activities occurred during the single day of the financial year following passage of this entity's enabling legislation.

