**Notes To The Financial Statements**

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1. Basis of financial statements preparation

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.

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.

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The 2015 version of the ABS GFS Manual superseded the previous 2005 version effective from 1 July 2017.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.

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 Amendmentsto *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.

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.

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  | Adjustment | | | | Reclassi- fications | Restated |
|  |  | 2017 | (a) | (b) | (c) | (d) | 2017 |
|  | Note | $m | $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** |  |  |  |  |  |  |  |  |
| *Gross operating expenses* |  |  |  |  |  |  |  |  |
| Supply of goods and services | 3C | 99,060 | - | - | - | - | 1,549 | 100,609 |
| *Total gross operating expenses* |  | *149,987* | - | - | - | - | *1,549* | *151,536* |
| Interest expense | 3D | 17,652 | - | - | - | (99) | - | 17,553 |
| *Current transfers* |  |  |  |  |  |  |  |  |
| Personal benefits |  | 129,596 | - | 103 | - | - | (1,549) | 128,150 |
| *Total current transfers* |  | *274,762* | *-* | *103* | *-* | *-* | *(1,549)* | *273,316* |
| **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 |
| *Total financial assets* |  | *465,993* | *(555)* | *-* | *527* | *-* | *-* | *465,965* |
| **Total assets** |  | **642,630** | **(555)** | **-** | **527** | **-** | **-** | **642,602** |
|  |  |  |  |  |  |  |  |  |
| **Liabilities** |  |  |  |  |  |  |  |  |
| *Provisions and payables* |  |  |  |  |  |  |  |  |
| 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 |
| *Total provisions and payables* |  | *431,189* | *21* | *216* | *-* | *213* | *-* | *431,639* |
| **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)** |

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.

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*.

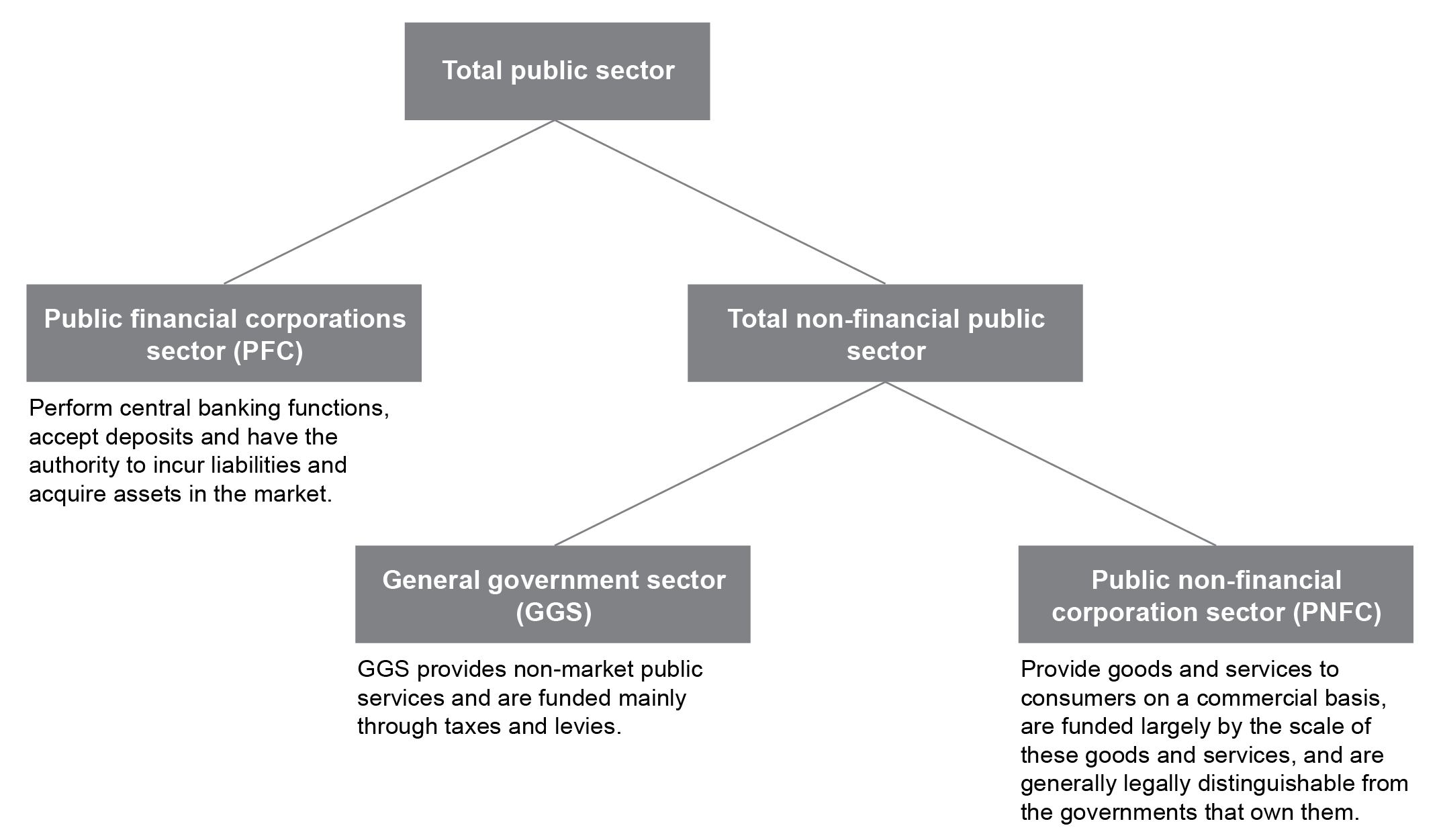
In cases where the sum of the consideration transferred plus the fair value of any previous equity interests exceeds the net value of identifiable assets and liabilities at the acquisition date, goodwill is measured as the excess amount. In cases where a business combination is achieved in stages, any 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. **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**



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. |

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.

Rounding

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

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.

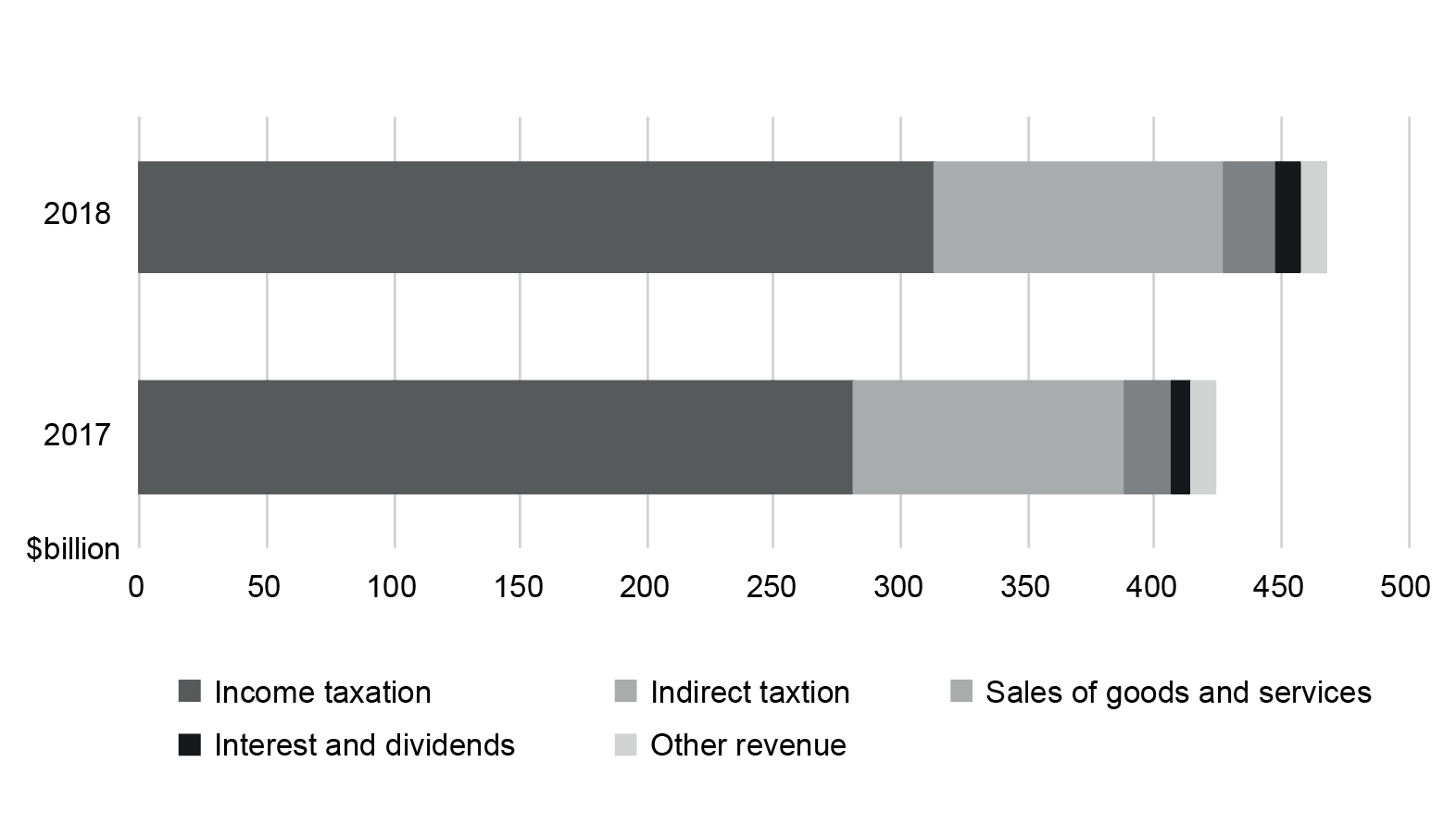
Australian Government entities monitor their level of compliance with Section 83 of the Constitution across all legislation for which they have legislative responsibility. If an entity identified a potential or actual Section 83 breach during the reporting period, the details have been disclosed in the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

1. 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.
  1. Taxation revenue

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | General Government | |  | Australian Government | |
|  | 2018 | 2017 |  | 2018 | 2017 |
|  | $m | $m |  | $m | $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** |

1. 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. |
| 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.

* 1. Sales of goods and services

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | General Government | |  | Australian Government | |
|  | 2018 | 2017 |  | 2018 | 2017 |
|  | $m | $m |  | $m | $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.

* 1. Interest and dividend income

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | General Government | |  | Australian Government | |
|  | 2018 | 2017 |  | 2018 | 2017 |
|  | $m | $m |  | $m | $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.

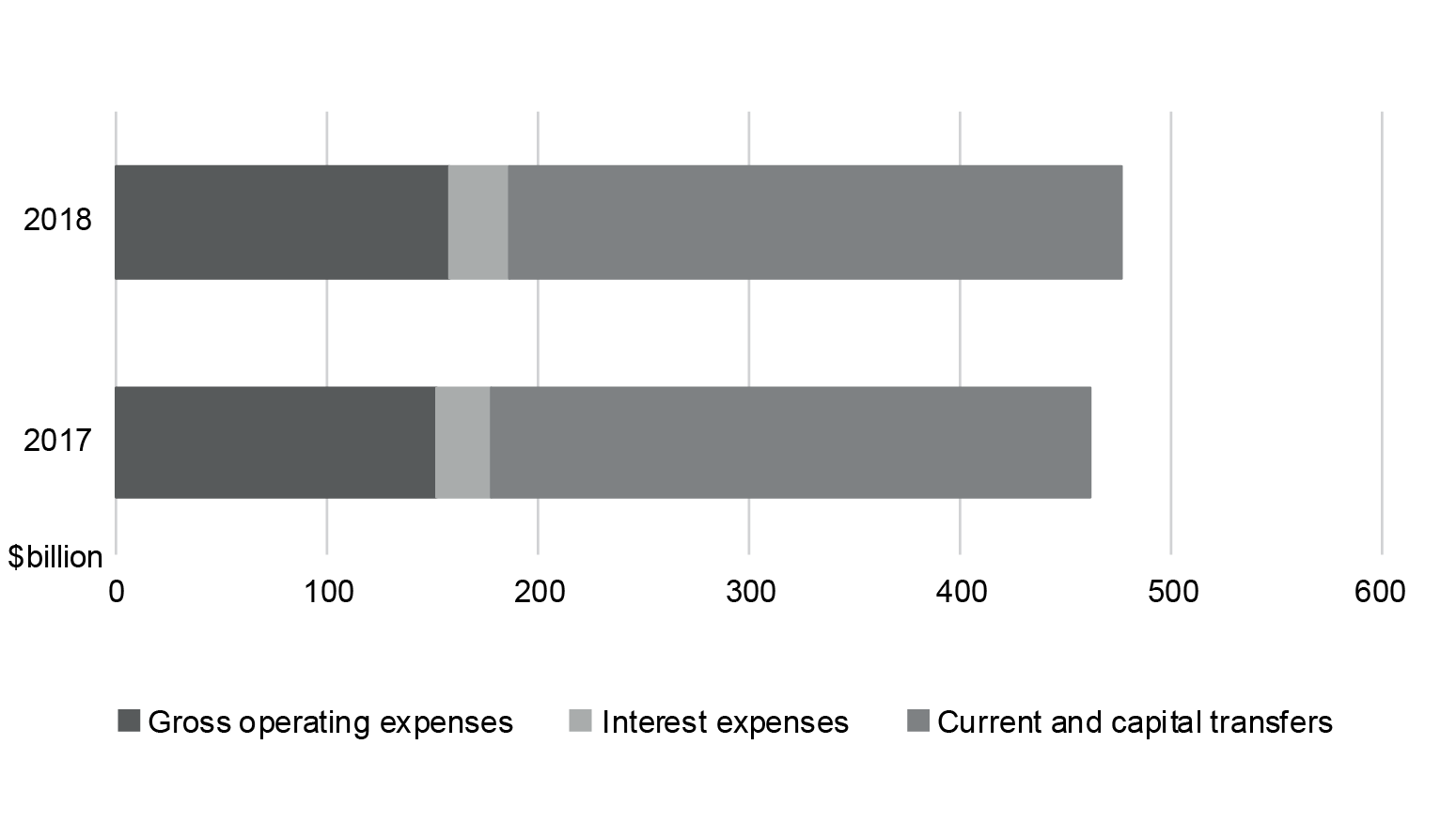
* 1. Other sources of non-taxation revenue

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | General Government | |  | Australian Government | |
|  | 2018 | 2017 |  | 2018 | 2017 |
|  | $m | $m |  | $m | $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** |

1. 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** coverthe 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.
  1. Employee and superannuation expenses

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | General Government | |  | Australian Government | |
|  | 2018 | 2017 |  | 2018 | 2017 |
|  | $m | $m |  | $m | $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** |

1. Employee benefits accounting policies are disclosed in Note 6F and superannuation is disclosed in Note 10C.
   1. Depreciation and amortisation expenses

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | General Government | |  | Australian Government | |
|  | 2018 | 2017 |  | 2018 | 2017 |
|  | $m | $m |  | $m | $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 |

1. The useful life of the Hansard digitised data is currently 100 years.
   1. Supply of goods and services

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | General Government | |  | Australian Government | |
|  | 2018 | 2017 |  | 2018 | 2017 |
|  | $m | $m |  | $m | $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 | 2017 |  | 2018 | 2017 |
|  | $m | $m |  | $m | $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.

* 1. Interest expense

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | General Government | |  | Australian Government | |
|  | 2018 | 2017 |  | 2018 | 2017 |
|  | $m | $m |  | $m | $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.

* 1. Grants expense

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | General Government | |  | Australian Government | |
|  | 2018 | 2017 |  | 2018 | 2017 |
|  | $m | $m |  | $m | $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 |
| *Other capital grants expense* |  |  |  |  |  |
| 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 |
| *Total other capital grants expense* | 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** |

1. 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.

* 1. Expenses by function

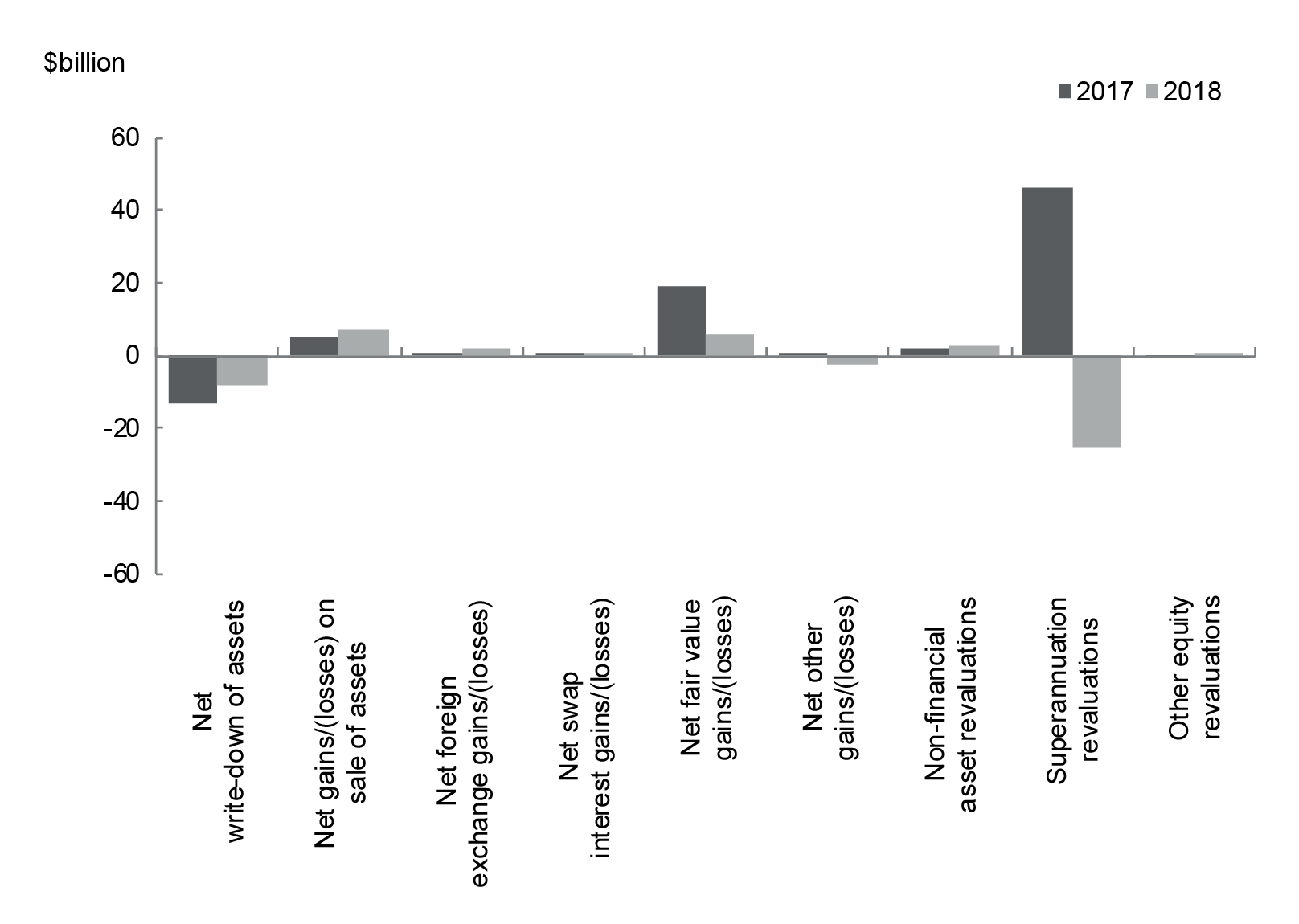
|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | General Government | |  | Australian Government | |
|  | 2018 | 2017 |  | 2018 | 2017 |
|  | $m | $m |  | $m | $m |
| General public services | 24,521 | 26,200 |  | 25,404 | 27,042 |
| Defence | 29,288 | 28,141 |  | 29,376 | 28,229 |
| Public 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. |

1. 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.
  1. Net write-down of assets (including bad and doubtful debts)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | General Government | |  | Australian Government | |
|  | 2018 | 2017 |  | 2018 | 2017 |
|  | $m | $m |  | $m | $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).

* 1. Net gains/(losses) from the sale of assets

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | General Government | |  | Australian Government | |
|  | 2018 | 2017 |  | 2018 | 2017 |
|  | $m | $m |  | $m | $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** |

* 1. Other gains/(losses)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | General Government | |  | Australian Government | |
|  | 2018 | 2017 |  | 2018 | 2017 |
|  | $m | $m |  | $m | $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)

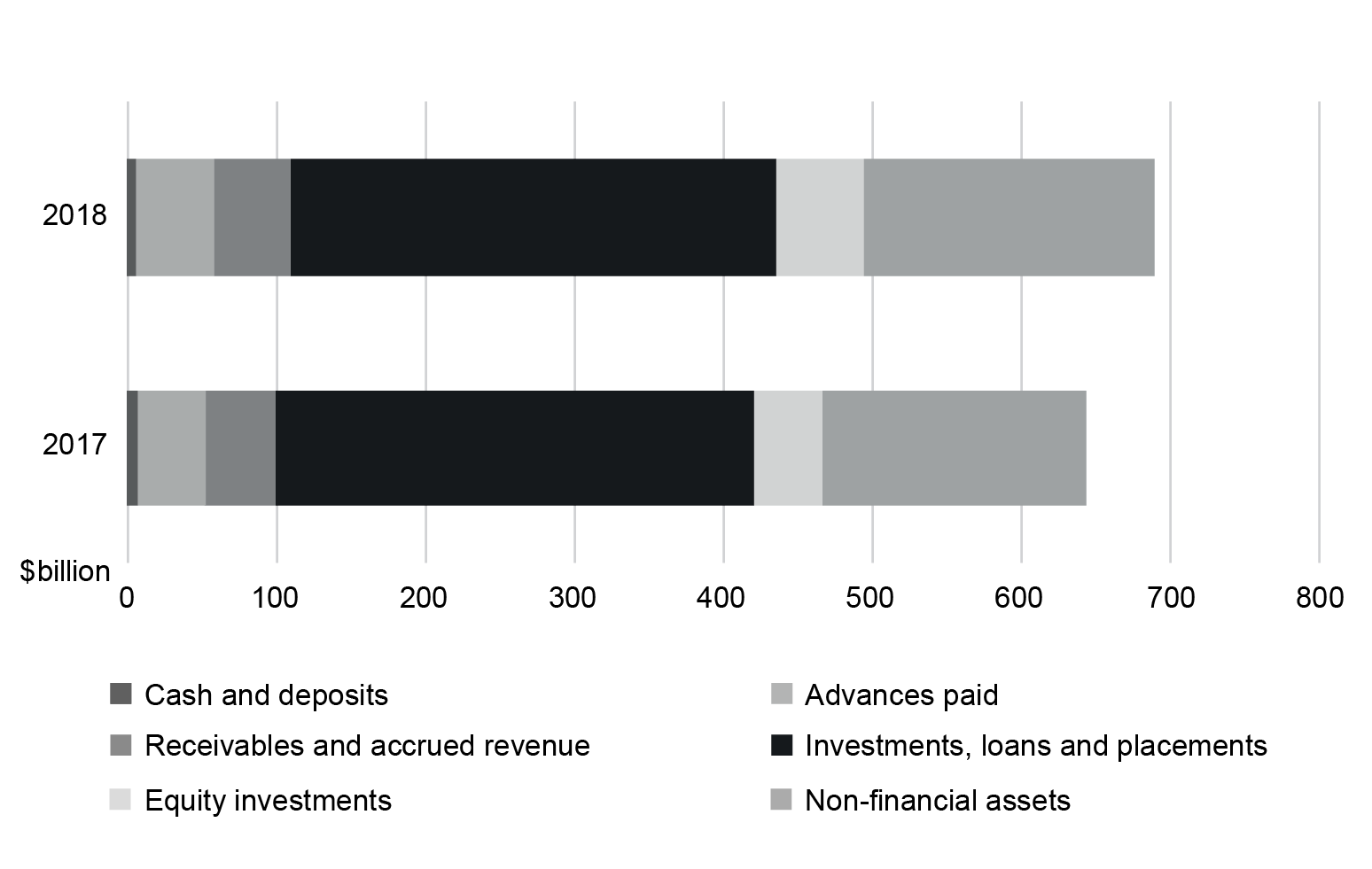
Other gains/(losses) primarily comprise:

* 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.

1. 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. | * 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. | * 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. | * transferred from equity (net worth) to the operating statement as an ‘other economic flow’. |

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

Non-financial assets

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

* 1. Advances paid and receivables

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | General Government | |  | Australian Government | |
|  | 2018 | 2017 |  | 2018 | 2017 |
|  | $m | $m |  | $m | $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:** |  |  |  |  |  |
| *Amortised Cost:* |  |  |  |  |  |
| Loans and receivable | 21,401 | 13,791 |  | 16,254 | 13,250 |
| Held to maturity | - | - |  | - | - |
| *Fair value:* |  |  |  |  |  |
| 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** |

1. 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 | |
|  |  | Goods and |  |  | Goods and |
|  | Advances | services |  | Advances | services |
|  | and loans | and other |  | and loans | and other |
|  | $m | $m |  | $m | $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 | |
|  |  | Goods and |  |  | Goods and |
|  | Advances | services |  | Advances | services |
|  | and loans | and other |  | and loans | and other |
|  | $m | $m |  | $m | $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)** |

1. 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 | |
|  |  | Goods and |  |  | Goods and |
|  | Advances | services |  | Advances | services |
|  | and loans | and other |  | and loans | and other |
|  | $m | $m |  | $m | $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 | 2017 |
|  |  |  |  | $m | $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 | 2017 |  | 2018 | 2017 |
|  | $m | $m |  | $m | $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 | 2017 |  | 2018 | 2017 |
|  | $m | $m |  | $m | $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** |

* 1. Investments, loans and placements

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | General Government | |  | Australian Government | |
|  | 2018 | 2017 |  | 2018 | 2017 |
|  | $m | $m |  | $m | $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: |  |  |  |  |  |
| *Amortised cost:* |  |  |  |  |  |
| Loans and receivable | 8,469 | 6,973 |  | 129,706 | 122,114 |
| Held to maturity | 3,422 | 3,355 |  | 3,500 | 3,574 |
| *Fair value:* |  |  |  |  |  |
| 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** |

1. 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.
2. 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 | 2017 |  | 2018 | 2017 |
|  | $m | $m |  | $m | $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** |

1. 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  Market approach | Discount rate  Adjusted market transactions |
| Other interest bearing securities | Discounted cash flow | Discount rate |
| Other | Net assets of entities | Net assets of entities |

Investments, loans and placements categorised as Level 3 that are valued using the net assets technique have been based on either the latest available audited accounts of those entities or internal management accounts because this is the most relevant available information at the end of the period. Due to the diverse nature of the collective investment vehicles, it is not possible to provide a range of inputs and associated sensitivity analysis for those investments. 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 | 2017 |  | 2018 | 2017 |
|  | $m | $m |  | $m | $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.

* 1. Equity investments

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | General Government | |  | Australian Government | |
|  | 2018 | 2017 |  | 2018 | 2017 |
|  | $m | $m |  | $m | $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:** |  |  |  |  |  |
| *Fair value:* |  |  |  |  |  |
| 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 |
| Other | 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 inflows (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 | 2017 |  | 2018 | 2017 |
|  | $m | $m |  | $m | $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  Net assets of entities | Foreign exchange rates  Net assets of entities |
| Investment in public corporations | Net assets of entities  Discounted cash flow | Net assets of entities  Weighted average cost of capital |

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 | 2017 |  | 2018 | 2017 |
|  | $m | $m |  | $m | $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** |

* 1. Land and buildings, plant, equipment and infrastructure, heritage and cultural assets and intangibles

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

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

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **General Government** | | | | |  | **Australian Government** | | | | |
|  | Land | Buildings | Specialist military equipment | Other  IPE | Heritage & cultural assets |  | Land | Buildings | Specialist military equipment | Other  IPE | Heritage & cultural assets |
| Item | $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 | 2017 |  | 2018 | 2017 |
|  | $m | $m |  | $m | $m |
| **Capital Commitments** |  |  |  |  |  |
| Buildings | 1,714 | 2,019 |  | 2,004 | 2,065 |
| Specialist Military Equipment | 18,259 | 14,329 |  | 18,259 | 14,329 |
| Other plant, equipment and intangibles | 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).

* 1. Inventories

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | General Government | |  | Australian Government | |
|  | 2018 | 2017 |  | 2018 | 2017 |
|  | $m | $m |  | $m | $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.

* 1. Other non-financial assets

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | General Government | |  | Australian Government | |
|  | 2018 | 2017 |  | 2018 | 2017 |
|  | $m | $m |  | $m | $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** |

* 1. Assets by function

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | General Government | |  | Australian Government | |
|  | 2018 | 2017 |  | 2018 | 2017 |
|  | $m | $m |  | $m | $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** |

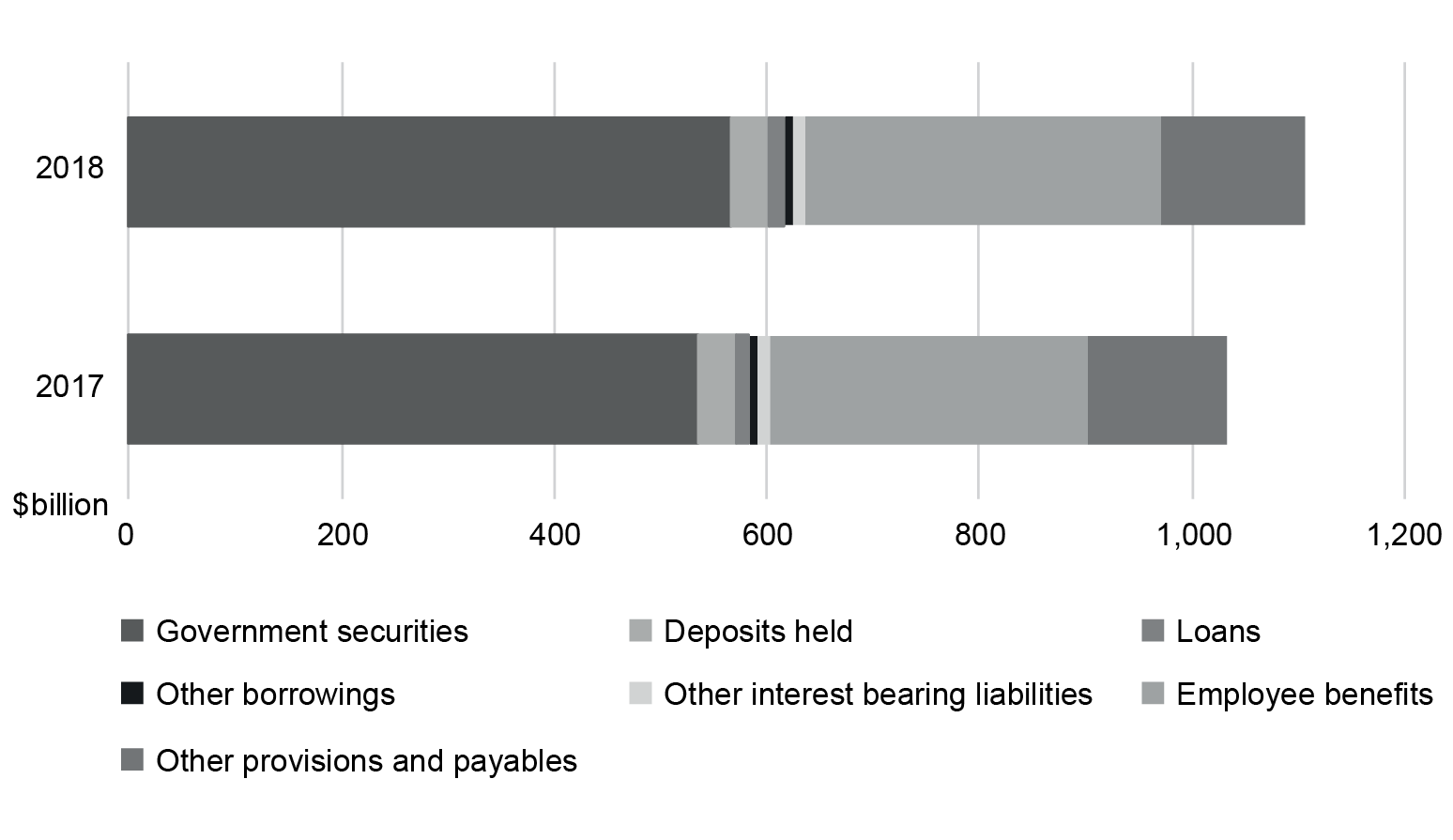
1. Cash and deposits that are not allocated to other functions are included in the ‘other purposes’ function.

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

1. 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)arepredominantly 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.
  1. Deposit liabilities

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | General Government | |  | Australian Government | |
|  | 2018 | 2017 |  | 2018 | 2017 |
|  | $m | $m |  | $m | $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 | 2017 |  | 2018 | 2017 |
|  | $m | $m |  | $m | $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** |

* 1. Government securities

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | General Government | |  | Australian Government | |
|  | 2018 | 2017 |  | 2018 | 2017 |
|  | $m | $m |  | $m | $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** |

1. 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 | 2017 |  | 2018 | 2017 |
|  | $m | $m |  | $m | $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** |

* 1. Loans

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | General Government | |  | Australian Government | |
|  | 2018 | 2017 |  | 2018 | 2017 |
|  | $m | $m |  | $m | $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 | 2017 |  | 2018 | 2017 |
|  | $m | $m |  | $m | $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** |

* 1. Other borrowings

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | General Government | |  | Australian Government | |
|  | 2018 | 2017 |  | 2018 | 2017 |
|  | $m | $m |  | $m | $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.

* 1. Other interest bearing liabilities

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | General Government | |  | Australian Government | |
|  | 2018 | 2017 |  | 2018 | 2017 |
|  | $m | $m |  | $m | $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 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 | 2017 |  | 2018 | 2017 |
|  | $m | $m |  | $m | $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** |

* 1. Employee benefits

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | General Government | |  | Australian Government | |
|  | 2018 | 2017 |  | 2018 | 2017 |
|  | $m | $m |  | $m | $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.

* 1. Other payables

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | General Government | |  | Australian Government | |
|  | 2018 | 2017 |  | 2018 | 2017 |
|  | $m | $m |  | $m | $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 Actand 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 | 2017 |  | 2018 | 2017 |
|  | $m | $m |  | $m | $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 | 2017 |  | 2018 | 2017 |
|  | $m | $m |  | $m | $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** |

* 1. Other provisions

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | General Government | |  | Australian Government | |
|  | 2018 | 2017 |  | 2018 | 2017 |
|  | $m | $m |  | $m | $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 |  |  | 2018 |
|  |  | $m |  |  | $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** |

1. Net revaluation increases/(decreases) in other comprehensive income

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | General Government | |  | Australian Government | |
|  | 2018 | 2017 |  | 2018 | 2017 |
|  | $m | $m |  | $m | $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** |

1. Reconciliation of cash

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

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  |  | General Government | |  | Australian Government | |
|  |  | 2018 | 2017 |  | 2018 | 2017 |
|  |  | $m | $m |  | $m | $m |
| **Net operating balance** | | **(4,156)** | **(32,359)** |  | **(8,379)** | **(36,885)** |
| *less* | 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** |
|  |  |  |  |  |  |  |
| *plus* | 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** |
|  |  |  |  |  |  |  |
| *plus* | 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 |  | Non-cash movements | | Closing balance at |
|  | 1 July 2017 | Cash flows | Acquisition | Other movements | 30 June 2018 |
| 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** |  |  |  | |  |
| 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** |

1. 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 |

1. 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.
2. 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.

1. 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.

* 1. 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 Actin 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 | 2017 |  | 2018 | 2017 |
|  | $m | $m |  | $m | $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 *Terrorism Insurance Act 2003* 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 *Medical Indemnity Act 2002* and the *Midwife Professional Indemnity (Commonwealth Contribution) Scheme Act 2010.* 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 *Banking Act 1959* 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 *Insurance Act 1973* 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 | 2017 |  | 2018 | 2017 |
|  | $m | $m |  | $m | $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 | 2017 |  | 2018 | 2017 |
|  | $m | $m |  | $m | $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 | 2017 |  | 2018 | 2017 |
|  | $m | $m |  | $m | $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 | 2017 |  | 2018 | 2017 |
|  | $m | $m |  | $m | $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.

* 1. 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 | 2017 |  | 2018 | 2017 |
|  | $m | $m |  | $m | $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.

1. **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 Actor 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 of the:

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

All the funds operate under the same governance arrangements with the Future Fund Board of Guardians having responsibility for investing decisions and managing the funds’ assets. The Board is administratively supported by the 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.

1. **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 | | | | | |
|  | Fixed | Floating |  | Non- |  |  |
|  | interest | interest |  | interest |  | Total |
|  | rate | rate |  | bearing |  |  |
|  | $m | $m |  | $m |  | $m |
|  |  |  |  |  |  |  |
| **Financial assets** |  |  |  |  |  |  |
| Advances paid and receivables (non-statutory) | 7,143 | 44,014 |  | 8,173 |  | 59,330 |
| *Investments, loans and placements:* |  |  |  |  |  |  |
| 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 | | | | | |
|  | Fixed | Floating |  | Non- |  |  |
|  | interest | interest |  | interest |  | Total |
|  | rate | rate |  | bearing |  |  |
|  | $m | $m |  | $m |  | $m |
|  |  |  |  |  |  |  |
| **Financial assets** |  |  |  |  |  |  |
| Advances paid and receivables (non-statutory) | 5,455 | 40,076 |  | 6,753 |  | 52,284 |
| *Investments, loans and placements:* |  |  |  |  |  |  |
| 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 | - 20 basis |  | + 30 basis |  | - 30 basis |
|  | points | points |  | points |  | points |
|  | $m | $m |  | $m |  | $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.

1. **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 |  | 2017 |
|  |  |  |  | $m |  | $m |
|  |  |  |  |  |  |  |
| **Financial assets** |  |  |  |  |  |  |
| Advances paid and receivables |  |  |  | 2,258 |  | 2,644 |
| *Investments, loans and placements:* |  |  |  |  |  |  |
| 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 | -9.2 |  | + 10.2 |  | - 10.2 |
|  | per cent | per cent |  | per cent |  | per cent |
|  | $m | $m |  | $m |  | $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 |  | 2017 |
|  |  |  |  | $m |  | $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)** |

1. **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 |  | 2017 |
|  |  |  |  | $m |  | $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 | - 20 & 15 |  | + 20 & 15 |  | - 20 & 15 |
|  | per cent | per cent |  | per cent |  | per cent |
|  | $m | $m |  | $m |  | $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 | Fair |  | Notional |  | Fair |
|  | value | value |  | value |  | value |
|  | $m | $m |  | $m |  | $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** |

* 1. 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) |

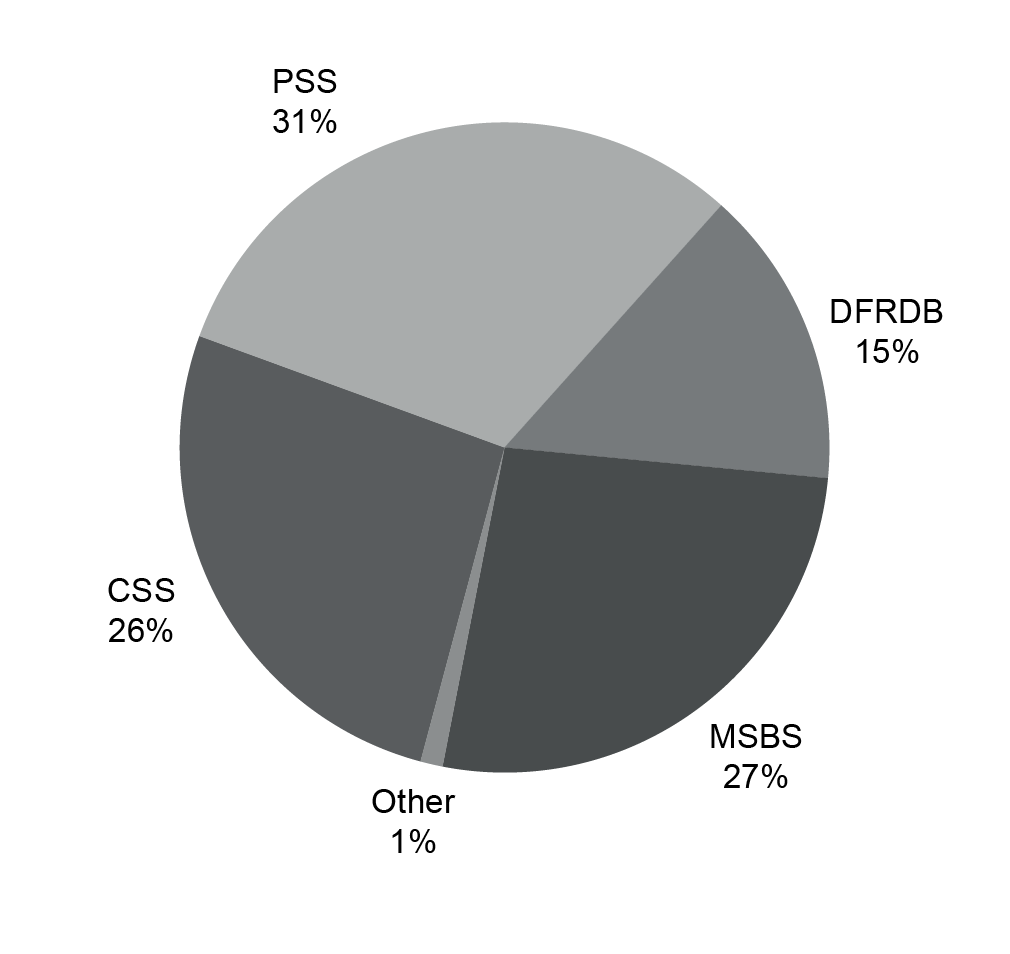
1. As required under AASB 119, the rate used to discount the superannuation liability is determined by reference to market yields on government bonds. Certain for profit public corporations have applied the market yield on high quality corporate bonds in discounting their long‑term employee benefits. On consolidation into these statements, the discount rate and associated disclosures have been adjusted back to apply government bond rates.
2. SHL was fully acquired as at 29 June 2018. Refer 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:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | General Government | |  | Australian Government | |
|  | 2018 | 2017 |  | 2018 | 2017 |
|  | $m | $m |  | $m | $m |
| **Scheme** |  |  |  |  |  |
| 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 | *Superannuation Act 1976* | 1 July 1976 to 30 June 1990 | Compliance with the *Superannuation Industry (Supervision) Act 1993*. |
| PSS | *Superannuation Act 1990* | 1 July 1990 to 30 June 2005 |
| MSBS | *Military Superannuation and Benefits Act 1991* | 1 October 1991 to 30 June 2016 |
| DFRDB | *Defence Force Retirement and Death Benefits Act 1973* | 1 October 1972 to  30 September 1991 | Exempt from *Superannuation Industry (Supervision) Act 1993.* |

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

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

Governance

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

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

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

Risks

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

Assumptions

For the defined benefit obligation, assumptions have been made regarding rates of retirement, death (for active, preserved and pension members), mortality improvements, invalidity, resignation, retrenchment, retention and take up rates of pensions in the schemes. Assumptions have also been made for the ages of spouses and rates of member contributions. 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** | | | | | | |
|  | 2018 | | | | | |
| Scheme | CSS | PSS | DFRDB | MSBS | Other |
|  | $m | $m | $m | $m | $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 |
| *Actuarial gains/(losses) arising from:* |  |  |  |  |  |
| 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** | | | | | | |
|  | 2017 | | | | |
| Scheme | CSS | PSS | DFRDB | MSBS | Other |
|  | $m | $m | $m | $m | $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) |
| *Actuarial gains/(losses) arising from:* |  |  |  |  |  |
| 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.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  | **Impact on defined benefit** | | | |
|  | **Change  in assumption** | | **obligation** | | |
|  | **Increase** | | **Decrease** |
|  | **$m** | | **$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.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | | **Weighted average duration of the defined benefit obligation in years** | | | |
| **Scheme** |  |
| Commonwealth Superannuation Scheme 1976 | | |  |  | 13.0 years |
| Commonwealth Superannuation Scheme 1922 | | |  |  | 7.2 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 |

1. Related parties
   1. 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 | 2017 |
|  | $m | $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** |

1. Short-term benefits comprise total salary (including the additional ministerial component), motor vehicle and other fringe benefit costs including related fringe benefits tax.
2. Post-employment benefits comprise superannuation contributions and post-retirement travel.

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

* 1. 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.

1. 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.

1. 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.
  1. 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:

1. *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.
2. *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.
3. *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:

1. *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.
2. *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 | PNFC | PFC | Eliminations | Government |
|  | $m | $m | $m | $m | $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 |
|  | GGS | PNFC | PFC | Eliminations | Government |
|  | $m | $m | $m | $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:

1. *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.
2. *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.
3. *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.
4. *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.
5. *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.
6. *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.
7. *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.

* 1. 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 | Original | Budget |  | Revised |
|  | Actual | budget(a) | variance |  | budget(b) |
|  | $m | $m | $m |  | $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** |  |  |  |  |  |
| *Gross operating expenses* |  |  |  |  |  |
| 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 |
| *Total gross operating expenses* | *142,981* | *141,948* | *1,033* |  | *146,854* |
| Superannuation interest expense | 9,240 | 10,392 | (1,152) |  | 9,241 |
| Interest expense | 17,811 | 18,544 | (733) |  | 17,931 |
| *Current transfers* |  |  |  |  |  |
| 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 |
| *Total current transfers* | *277,652* | *280,792* | *(3,140)* |  | *282,167* |
| *Capital transfers* |  |  |  |  |  |
| Mutually agreed write-downs | 1,996 | 1,429 | 567 |  | 2,013 |
| Other capital grants | 10,597 | 11,157 | (560) |  | 10,581 |
| *Total capital transfers* | *12,593* | *12,586* | 7 |  | 12,594 |
| **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)** |

1. 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.
2. 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 | Total taxation revenue was $11.8 billion higher than the original budget, driven by:   * 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 | 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.  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.  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. |
| Supply of goods and services | ($2.0b) | 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. |
| Personal benefits | ($3.4b) | 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. |

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 | Original | Budget |  | Revised |
|  | Actual | budget(a) | variance |  | budget(b) |
|  | $m | $m | $m |  | $m |
| **Assets** |  |  |  |  |  |
| *Financial assets* |  |  |  |  |  |
| 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* |
|  |  |  |  |  |  |
| *Non-financial assets* |  |  |  |  |  |
| 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** |  |  |  |  |  |
| *Interest bearing liabilities* |  |  |  |  |  |
| 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* |
|  |  |  |  |  |  |
| *Provisions and payables* |  |  |  |  |  |
| 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)** |

1. 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.
2. 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:   * 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:   * 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:   * the acquisition of SHL (refer 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 (AGS) managed by the AOFM 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 S 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 | Original | Budget |  | Revised |
|  | Actual | budget(a) | variance |  | budget(b) |
|  | $m | $m | $m |  | $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)** |

1. 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.
2. 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.
   1. 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.

1. 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).

1. 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  Australian Pesticides and Veterinary Medicines Authority  Cotton Research and Development Corporation  Department of Agriculture and Water Resources  Fisheries Research and Development Corporation | Grains Research and Development Corporation  Murray‑Darling Basin Authority  Regional Investment Corporation  Rural Industries Research and Development Corporation  Wine Australia |
| Attorney‑General’s Portfolio | |
| General Government: |  |
| Administrative Appeals Tribunal  Attorney‑General's Department  Australian Commission for Law Enforcement Integrity  Australian Financial Security Authority  Australian Human Rights Commission  Australian Law Reform Commission  Federal Court of Australia | High Court of Australia  National Archives of Australia  Office of the Australian Information Commissioner  Office of the Commonwealth Ombudsman  Office of the Inspector General of Intelligence and Security  Office of Parliamentary Counsel  Office of the Director of Public Prosecutions |
| Communications and the Arts Portfolio | |
| General Government: |  |
| Australia Council  Australian Broadcasting Corporation  Australia Business Arts Foundation Ltd (Creative Partnerships Australia) (company limited by guarantee)  Australian Communications and Media Authority  Australian Film, Television and Radio School Australian National Maritime Museum  Bundanon Trust (company limited by guarantee) | Department of Communications and the Arts  National Film and Sound Archive of Australia  National Gallery of Australia  National Library of Australia  National Museum of Australia  National Portrait Gallery of Australia  Old Parliament House  Screen Australia  Special Broadcasting Service Corporation |
| Public Non-Financial Corporations: |  |
| Australian Postal Corporation (Australia Post) | nbn Co Ltd |
| Defence Portfolio | |
| General Government: |  |
| AAF Company (company limited by guarantee)  Army and Air Force Canteen Service (Frontline Defence Services)  Australian Military Forces Relief Trust Fund (Army Relief Trust Fund)  Australian Strategic Policy Institute Ltd (company limited by guarantee)  Australian War Memorial  Defence Housing Australia | Department of Defence  Department of Veterans’ Affairs  Royal Australian Air Force Veterans’ Residences Trust Fund  RAAF Welfare Recreational Company (company limited by guarantee)  Royal Australian Air Force Welfare Trust Fund  Royal Australian Navy Central Canteens Board  Royal Australian Navy Relief Trust Fund |
| Education and Training Portfolio | |
| General Government: |  |
| Australian Curriculum, Assessment and Reporting Authority  Australian Institute for Teaching and School Leadership Ltd (company limited by guarantee)  Australian Research Council | Australian Skills Quality Authority (National Vocational Education and Training Regulator)  Department of Education and Training  Tertiary Education Quality and Standards Agency |
| Environment and Energy Portfolio | |
| General Government: |  |
| Australian Renewable Energy Agency  Bureau of Meteorology  Clean Energy Finance Corporation  Clean Energy Regulator  Climate Change Authority | Department of the Environment and Energy  Director of National Parks  Great Barrier Reef Marine Park Authority  Sydney Harbour Federation Trust |
| Public Non-Financial Corporation: |  |
| Snowy Hydro Limited |  |
| Finance Portfolio | |
| General Government: |  |
| Australian Electoral Commission  Commonwealth Superannuation Corporation  Independent Parliamentary Expenses Authority[[1]](#footnote-1) | Department of Finance  Future Fund Management Agency |
| Public Non-Financial Corporations: |  |
| ASC Pty Ltd | Australian Naval Infrastructure Pty Ltd |
| Foreign Affairs and Trade Portfolio | |
| General Government: |  |
| Australian Centre for International Agricultural Research  Australian Secret Intelligence Service  Australian Trade and Investment Commission | Department of Foreign Affairs and Trade  Export Finance and Insurance Corporation (National Interest Account)  Tourism Australia |
| Public Financial Corporation: |  |
| Export Finance and Insurance Corporation |  |
| Health Portfolio | |
| General Government: |  |
| Australian Aged Care Quality Agency  Australian Commission on Safety and Quality in Health Care  Australian Digital Health Agency  Australian Institute of Health and Welfare  Australian National Preventive Health Agency  Organ and Tissue Authority  Australian Radiation Protection and Nuclear Safety Agency  Australian Sports Anti‑Doping Authority  Australian Sports Commission (Australian Institute of Sport) | Australian Sports Foundation Ltd (company limited by guarantee)  Cancer Australia  Department of Health  Food Standards Australia New Zealand  Independent Hospital Pricing Authority  National Blood Authority  National Health and Medical Research Council  National Health Funding Body  National Mental Health Commission  Professional Services Review Scheme |
| 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) |
| Jobs and Innovation Portfolio (continued) | |
| Public Non-Financial Corporations: |  |
| 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)  Australian Institute of Aboriginal and Torres Strait Islander Studies  Australian National Audit Office  Australian Public Service Commission  Department of the Prime Minister and Cabinet  Digital Transformation Agency  Indigenous Business Australia | Indigenous Land Corporation  National Australia Day Council Limited (company limited by guarantee)  Office of National Assessments  Office of the Official Secretary to the Governor‑General  Outback Stores Pty Limited  Torres Strait Regional Authority  Workplace Gender Equality Agency |
| Public Non-financial Corporation: |  |
| Voyages Indigenous Tourism Australia Pty Ltd |  |
| Social Services Portfolio | |
| General Government: |  |
| Australian Institute of Family Studies  Department of Social Services | National Disability Insurance Scheme Launch Transition Agency (National Disability Insurance Agency) |
| Treasury Portfolio | |
| General Government: |  |
| Australian Bureau of Statistics  Australian Competition and Consumer Commission  Australian Office of Financial Management  Australian Prudential Regulation Authority  Australian Securities and Investments Commission  Australian Taxation Office  Commonwealth Grants Commission  Financial Adviser Standards and Ethics Authority Ltd (company limited by guarantee)  Department of the Treasury | Inspector‑General of Taxation  National Competition Council  National Housing Finance and Investment Corporation  Office of the Auditing and Assurance Standards Board  Office of the Australian Accounting Standards Board  Productivity Commission  Royal Australian Mint |
| Public Financial Corporations: |  |
| Australian Reinsurance Pool Corporation  National Housing Finance and Investment Corporation (Bond Aggregator) | Reserve Bank of Australia |

|  |  |
| --- | --- |
| Parliamentary Departments | |
| General Government: |  |
| Department of Parliamentary Services  Department of the House of Representatives | Department of the Senate  Parliamentary Budget Office |

##### Entity changes during 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]](#footnote-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.

1. This entity became a Statutory Agency from 1 July 2017. [↑](#footnote-ref-1)
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. [↑](#footnote-ref-2)