# 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 the 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 CFS presents financial aggregates according to the Uniform Presentation Framework (UPF). The UPF is an agreed framework between the Australian, state and territory governments for the presentation of government financial information.

The CFS also presents expenses and assets classified according to the functions of Government (refer Notes 3F and 5G respectively). The Classifications of Functions of Government - Australia (COFOG-A) in the 2015 ABS GFS Manual replaced the former Government Purpose Classification (GPC). However, consistent with the Final Budget Outcome and historical reporting, the CFS adopts the GPC under the previous ABS 2005 GFS Manual (*Australian System of Government Finance Statistics: Concepts, Sources and Methods 2005 — ABS Catalogue No. 5514.0*).

The adoption of COFOG-A would result in the reallocation of Government superannuation expenses from the General Public Services function across all functions and the grouping or reallocation of certain sub-functions.

Under the 2019 UPF, jurisdictions which apply the former GPC hierarchy must reference the previous ABS 2005 GFS Manual.

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, an explanation of the differences between the two measures is provided (refer Note 12A). In previous years, a quantitative reconciliation was required, however the Australian Government has early adopted the amendment to AASB 1049 which removes this requirement (refer Note 1.4 below).

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 2019‑20, the Australian Government adopted all applicable accounting standards that became effective during the year. The following standards were mandatory for the first time from 1 July 2019 and are applicable to the CFS.

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

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.

In addition, supplementary changes were also adopted arising from AASB 2016‑7 *Amendments to Australian Accounting Standards – Deferral of AASB 15 for Not‑for‑Profit Entities*, AASB 2016-8 *Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities* and AASB 2019-6 *Amendments to Australian Accounting Standards – Research Grants and Not-for-Profit entities*.

AASB 1058 is relevant to the Australian Government in circumstances where AASB 15 does not apply. AASB 1058 replaces most of the not-for-profit (NFP) provisions of AASB 1004 *Contributions* and applies to transactions where the consideration to acquire an asset is significantly less than fair value principally to enable the entity to further its objectives and where volunteer services are received.

*Application of AASB 15 and AASB 1058*

The Australian Government adopted AASB 15 and AASB 1058 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 July 2019. Accordingly, the comparative information presented for 2019 is not restated, that is, it is presented as previously reported under the various applicable AASBs and related interpretations. The impact on transition is summarised below:

|  |  |  |  |
| --- | --- | --- | --- |
|  | General Government |  | Australian Government |
|  | 1 July 2019 |  | 1 July 2019 |
|  | $m |  | $m |
| **Assets** |  |  |  |
| Receivables | - |  | 12 |
| Contract assets | (1) |  | - |
| **Total assets** | **(1)** |  | **12** |
| **Liabilities** |  |  |  |
| Contract liabilities | 183 |  | 213 |
| **Total liabilities** | **183** |  | **213** |
|  |  |  |  |
| **Total adjustment recognised in retained earnings** | **(184)** |  | **(201)** |

Under the new income recognition model it must first be determined whether an enforceable agreement exists and whether the promises to transfer goods or services to the customer are ‘sufficiently specific’. If an enforceable agreement exists and the promises are ‘sufficiently specific’ (to a transaction or part of a transaction), the general AASB 15 principles are used to determine the appropriate revenue recognition. If these criteria are not met, then consideration is given to the application of AASB 1058.

In relation to AASB 15, the Australian Government elected to apply the new standard to all new and uncompleted contracts from the date of initial application. The Australian Government is required to aggregate the effect of all of the contract modifications that occur before the date of initial application.

In terms of AASB 1058, the Australian Government is required to recognise volunteer services at fair value if those services would have been purchased if not provided voluntarily and the fair value of those services can be measured reliably.

*Transitional disclosure*

The adoption of AASB 15 and AASB 1058 did not have a material impact on the Australian Government Consolidated Financial Statements and there would be no material change to the comparative 2018-19 revenue disclosed if it had been retrospectively stated under AASB 15 and AASB 1058. There would also be no material change to the current 2019-20 revenue if the previous revenue standards (AASB 1004, AASB 118, AASB 111 and related interpretations) had continued to be applied in the current financial year.

#### AASB 16 Leases (AASB 16)

AASB 16 became effective on 1 July 2019. This new standard has replaced AASB  17 *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*.

In addition, supplementary changes were also adopted arising from AASB 2018‑8 *Amendments to Australian Accounting Standards – Right-of-Use Assets of Not‑for‑Profit Entities* and AASB 2019-8 *Amendments to Australian Accounting Standards – Class of Right-of-Use Assets arising under Concessionary Leases.*

The AASB have issued an amendment to AASB 16 in relation to rent relief with respect to COVID-19. This did not have a material impact on the Australian Government as a lessee.

AASB 16 provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, together with options to exclude leases where the lease term is 12 months or less, or where the underlying asset is of low value. AASB 16 substantially carries forward the lessor accounting in AASB 117, with the distinction between operating leases and finance leases being retained. The details of the changes in accounting policies, transitional provisions and adjustments are disclosed below and in the relevant notes to the financial statements.

*Application of AASB 16 Leases*

The Australian Government adopted AASB 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 July 2019. Accordingly, the comparative information presented for 2019 is not restated, that is, it is presented as previously reported under AASB 117 and related interpretations.

The Australian Government elected to apply the practical expedient to not reassess whether a contract is, or contains a lease at the date of initial application. Contracts entered into before the transition date that were not identified as leases under AASB 117 were not reassessed. The definition of a lease under AASB 16 was applied only to contracts entered into or changed on or after 1 July 2019.

AASB 16 provides for certain optional practical expedients, including those related to the initial adoption of the standard. The Australian Government applied the following practical expedients when applying AASB 16 to leases previously classified as operating leases under AASB 117:

* apply a single discount rate to a portfolio of leases with reasonably similar characteristics;
* exclude initial direct costs from the measurement of right-of-use assets at the date of initial application for leases where the right-of-use asset was determined as if AASB 16 had been applied since the commencement date;
* rely on previous assessments as to whether leases are onerous as opposed to preparing an impairment review under AASB 136 *Impairment of assets* as at the date of initial application; and
* apply the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease term remaining as of the date of initial application.

As a lessee, the Australian Government previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under AASB 16, the Australian Government recognises right-of-use assets and lease liabilities for most leases. However, the Australian Government has elected not to recognise right-of-use assets and lease liabilities for some leases of low value assets based on the value of the underlying asset when new or for short-term leases with a lease term of 12 months or less.

On adoption of AASB 16, the Australian Government recognised right-of-use assets and lease liabilities in relation to leases of office space, equipment and motor vehicles, which had previously been classified as operating leases. The lease liabilities were measured at the present value of the remaining lease payments, discounted using an incremental borrowing rate as at 1 July 2019.

The incremental borrowing rate is the rate at which a similar borrowing could be obtained from an independent creditor under comparable terms and conditions.

The Australian Government's lease portfolios are managed by various Commonwealth entities. For non-profit entities within the General Government Sector, the incremental borrowing rate is based on Government bond rates with the weighted average rate applied ranging from 1.2 per cent to 1.5 per cent.

For profit entities in the General Government Sector and public corporations, the individual entities' incremental borrowing rates were applied and ranged from 1.7 per cent to 6.8 per cent.

The right-of-use assets were measured as follows:

a) Office space: measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

b) All other leases: the carrying value that would have resulted from AASB 16 being applied from the commencement date of the leases, subject to the practical expedients noted above.

*Impact on transition of AASB 16*

On transition to AASB 16, the Australian Government recognised additional right-of-use assets and additional lease liabilities, recognising the difference in retained earnings. The impact on transition is summarised below:

|  |  |  |  |
| --- | --- | --- | --- |
|  | General Government |  | Australian Government |
|  | 1 July 2019 |  | 1 July 2019 |
|  | $m |  | $m |
| Right-of-use assets | 19,314 |  | 22,348 |
| Lease liabilities | 19,195 |  | 22,221 |
| Retained earnings | 944 |  | 1,055 |

*Transitional disclosure*

The following table reconciles the Australian Government's minimum lease commitments disclosed in the 30 June 2019 CFS to the amount of lease liabilities recognised on 1 July 2019:

|  |  |  |  |
| --- | --- | --- | --- |
|  | General Government |  | Australian Government |
|  | 1 July 2019 |  | 1 July 2019 |
|  | $m |  | $m |
| Operating lease commitments at 30 June 2019  (under AASB 117) | 16,953 |  | 19,620 |
| *less* short-term leases not recognised under AASB 16 | (142) |  | (158) |
| *less* low value leases not recognised under AASB 16 | (159) |  | (489) |
| *plus* additional commitments at 30 June 2019 | 1,048 |  | 2,146 |
| *plus* effect of extension options reasonably certain to be exercised | 5,583 |  | 5,998 |
| *less* leases not yet commenced at 1 July 2019 | (275) |  | (431) |
| *less* commitments outside the scope of AASB 16 | (1,273) |  | (1,469) |
| *less* GST included in commitments at 30 June 2019 | (555) |  | (582) |
| *less* other | (134) |  | (145) |
| **Undiscounted lease payments** | **21,046** |  | **24,490** |
| *less* effect of discounting using the incremental borrowing rate as at the date of initial application | (1,851) |  | (2,269) |
| **Increase in lease liabilities recognised at 1 July 2019** | **19,195** |  | **22,221** |

In addition to the above lease liabilities recognised as a result of the application of AASB 16, there was $10.2 billion in Australian Government leases previously classified as finance leases of which $1.5 billion related to the General Government Sector and which are now reported in the lease liability in Note 6D.

##### Early adoption of Australian Accounting Standards

**AASB 2019-7 Amendments to Australian Accounting Standards – Disclosure of GFS measures of Key Fiscal Aggregates and GAAP/GFS Reconciliations**

AASB 2019-7 amends AASB 1049 *Whole of Government and General Government Sector Financial Reporting* to provide optional relief from the disclosure of key fiscal aggregates measured in accordance with the ABS GFS Manual where they differ from the key fiscal aggregates provided as per paragraph 16 of AASB 1049. It also removes the requirement to provide a quantitative reconciliation between the two measures, provided there is a qualitative disclosure of the differences between the two measures.

AASB 2019-7 was developed in recognition of the increasing divergence of Australian Accounting Standards and Government Finance Statistics (GFS), making it difficult for jurisdictions to reliably calculate GFS measures of key fiscal aggregates and prepare GAAP/GFS reconciliations in a timely and cost-effective way. The new AASB 16 lease requirements is one such example.

While not mandatorily applicable, AASB 2019-7 can be early adopted for the first time for the year ended 30 June 2020 and has been implemented for the 2019-20 CFS. The 2019-20 CFS has removed the quantitative reconciliation between ABS GFS and AASB 1049 key fiscal aggregates and replaced it with qualitative disclosures.

##### 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 1059 *Service Concession Arrangements* (AASB 1059)

**Effective date:** 1 July 2020 (2020-21) as amended by AASB 2018-5.

**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.

#### Conceptual Framework for Financial Reporting (Conceptual Framework)

**Effective date:** 1 July 2020 (2020-21)

**Nature of change:** The revised conceptual framework is the foundation on which accounting standards are developed. While most concepts are not new, the new Conceptual Framework does present new concepts around:

* new ‘bundles of rights’ approach to assets;
* new ‘practical ability’ approach for recognising liabilities; and
* new control-based approach to derecognition.

**Likely impact on initial application:** Unlikely to have a significant impact on the CFS.

Restatement of prior period comparatives

The 2018-19 comparatives have been restated to account for the following:

* For the 2018-19 financial year, a $109 million restatement was made to the National Disability Insurance Scheme's in-kind contributions from other Australian Government entities. As the in-kind contributions are internal to Government, the associated revenue and expense should not be included in the CFS. There is no impact on the key aggregates reported for 2018-19. A separate $58 million restatement was also made to the comparative sales of goods and services revenue and unearned income liability in relation to contract revenue which has now been determined to have been internal to the Australian Government while comparative supplier expenses have been adjusted by $41 million in relation to participant plan provisions. Adjustments have been made to the 2018‑19 comparatives as per adjustment (a) in the table below.
* There was a voluntary change in accounting policy for the accounting treatment of amounts held in relation to the rehabilitation of the Ranger Mine site, which is administered by the Department of Industry, Science, Energy and Resources. Adjustments have been made to the 2018-19 comparatives to recognise prior year funds relating to the Ranger Rehabilitation special account as per adjustment (b) in the table below.
* In the calculation of the decommissioning provision as at 30 June 2019 and previous years, the Australian Nuclear Science Technology Organisation discounted the cash flows using a single rate when the discount rate used should have more closely aligned to the time pattern of the projected cash flows. A recalculation of the decommissioning provision using a sliding yield resulted in the decommissioning provision as at 30 June 2019 being understated by $269 million of which $177 million related to 2018-19 and $92 million related to periods prior to 1 July 2018. Adjustments have been made to the 2018-19 comparatives as per adjustment (c) in the table below.
* In the 2019-20 financial period, the Department of Defence undertook additional asset review activities that identified significant write-downs and impairment of assets that should have been recorded in prior financial periods. Adjustments have been made to the 2018-19 comparatives as per adjustment (d) in the table below.
* The Department of Defence has entered into a number of arrangements to perform activities on behalf of foreign governments under which funding is received in advance of expenditure being incurred. In 2018-19 funding received was reported as assets held in relation to activities performed on behalf of foreign governments and subsequently not reported within the statement of financial position. In 2019-20, it has been determined the funding received represents both cash and cash equivalents, in addition to amounts payable, as the funding received is only to be utilised for specific purposes. Adjustments have been made to the 2018-19 comparatives as per adjustment (d) in the table below.

The following material reclassifications have been made to the 2018-19 comparatives to ensure consistency with current year reporting (reclassifications within a note or financial statement category are not shown):

* The Future Fund has historically reported gains/losses on foreign exchange contracts as foreign exchange gains and losses separate from the fair value gain/loss on the investment. For investments measured at fair value, the gains/losses as a result of foreign exchange impacts are now reported as part of the fair value gains/losses on investments.
* The Department of Defence identified some amounts are paid to provide a number of health benefits to employees. However, it was subsequently determined that a portion of amounts paid under the contract relate to administration of the arrangement.

Adjustments have been made to the 2018-19 comparatives as per the reclassification column in the table below.

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  | Adjustment | | | | Reclass- ifications | **Restated** |
|  |  | **2019** | (a) | (b) | (c ) | (d) | **2019** |
|  | Note | $m | $m | $m | $m | $m | $m | $m |
| **Revenue from transactions** |  |  |  |  |  |  |  |  |
| Sales of goods and services | 2B | 27,730 | (58) | - | - | - | - | 27,672 |
| Non-taxation revenue | 2D | 10,544 | (109) | - | - | - | - | 10,435 |
| **Total revenue** |  | **507,988** | **(167)** | **-** | **-** | **-** | **-** | **507,821** |
| **Expenses from transactions** |  |  |  |  |  |  |  |  |
| *Gross operating expenses* |  |  |  |  |  |  |  |  |
| Supply of goods and services | 3C | 124,652 | (150) | - | - | - | 30 | 124,532 |
| Other operating expenses | 3A | 8,726 | - | - | - | - | (30) | 8,696 |
| *Total gross operating expenses* |  | *180,076* | *(150)* | *-* | *-* | *-* | *-* | *179,926* |
| Interest expense | 3D | 19,470 | - | - | 5 | - | - | 19,475 |
| **Total expenses** | 3F | **504,724** | **(150)** | **-** | **5** | **-** | **-** | **504,579** |
|  |  |  |  |  |  |  |  |  |
| **Net operating balance** |  | **3,264** | **(17)** | **-** | **(5)** | **-** | **-** | **3,242** |
| **Other economic flows** |  |  |  |  |  |  |  |  |
| Net write-down of assets (including bad and doubtful debts) | 4A | (7,060) | - | - | - | (242) | - | (7,302) |
| Net gains/(losses) from the sale of assets | 4B | 5,494 | - | - | - | - | (1,953) | 3,541 |
| Other gains/(losses) | 4C | (40,979) | - | - | (172) | - | 1,953 | (39,198) |
| **Operating result** |  | **(39,281)** | **(17)** | **-** | **(177)** | **(242)** | **-** | **(39,717)** |
|  |  |  |  |  |  |  |  |  |
| **Assets** |  |  |  |  |  |  |  |  |
| *Financial assets* |  |  |  |  |  |  |  |  |
| Cash and deposits |  | 8,261 | - | - | - | 211 | - | 8,472 |
| Investments, loans and placements | 5B | 333,479 | - | 75 | - | - | - | 333,554 |
| *Total financial assets* |  | *526,756* | *-* | *75* | *-* | *211* | *-* | *527,042* |
| *Non-financial assets* |  |  |  |  |  |  |  |  |
| Land | 5D | 13,628 | - | - | - | (1) | - | 13,627 |
| Buildings | 5D | 30,026 | - | - | - | 19 | - | 30,045 |
| Specialist military equipment | 5D | 66,593 | - | - | - | (11) | - | 66,582 |
| Other plant, equipment and infrastructure | 5D | 61,256 | - | - | - | (55) | - | 61,201 |
| Intangibles | 5D | 12,731 | - | - | - | (19) | - | 12,712 |
| Inventories | 5E | 9,145 | - | - | - | (142) | - | 9,003 |
| Heritage and cultural assets | 5D | 11,695 | - | - | - | 1 | - | 11,696 |
| *Total non-financial assets* |  | *210,553* | *-* | *-* | *-* | *(208)* | *-* | *210,345* |
| **Total assets** |  | **737,309** | **-** | **75** | **-** | **3** | **-** | **737,387** |
|  |  |  |  |  |  |  |  |  |
| **Liabilities** |  |  |  |  |  |  |  |  |
| *Provisions and payables* |  |  |  |  |  |  |  |  |
| Other payables | 6G | 3,985 | 58 | - | - | 211 | - | 4,254 |
| Other provisions | 6H | 45,123 | - | 75 | 269 | - | - | 45,467 |
| *Total provisions and payables* |  | *592,794* | *58* | *75* | *269* | *211* | *-* | *593,407* |
| **Total liabilities** |  | **1,281,942** | **58** | **75** | **269** | **211** | **-** | **1,282,555** |
|  |  |  |  |  |  |  |  |  |
| **Net worth** |  |  |  |  |  |  |  |  |
| Opening balance as at 1 July 2018 |  | (417,735) | (41) | - | (92) | 34 | - | (417,834) |
| Comprehensive result - Change in net worth |  | (126,949) | (17) | - | (177) | (242) | - | (127,385) |
| **Net worth** |  | **(544,633)** | **(58)** | **-** | **(269)** | **(208)** | **-** | **(545,168)** |

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.

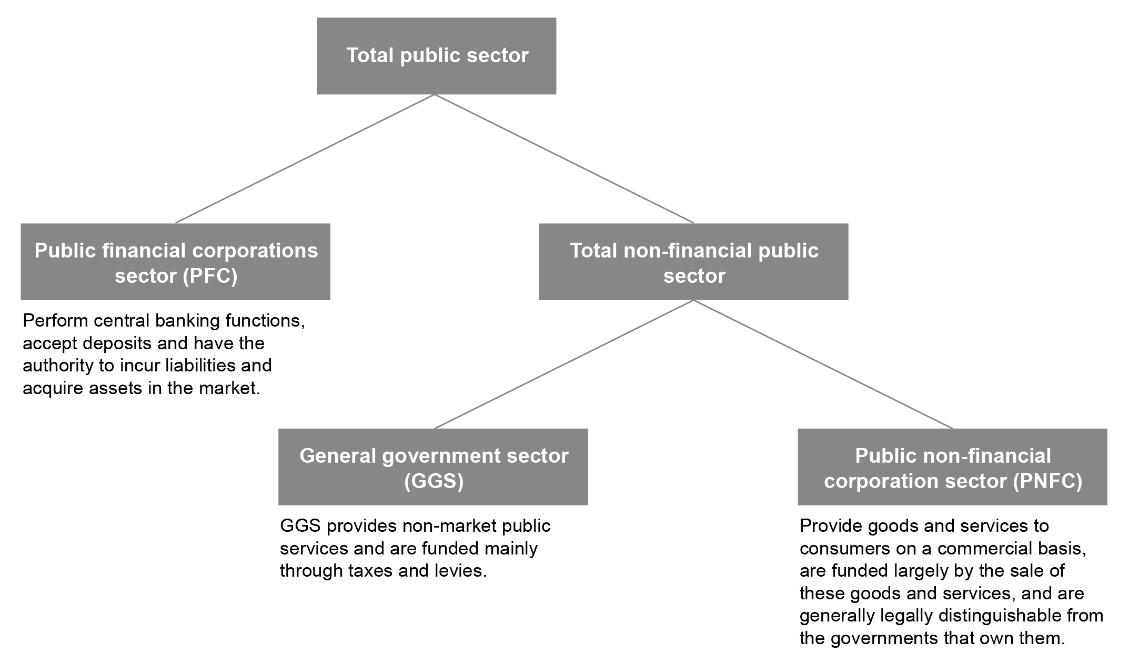
Business combinations

There were no material business combinations in 2019-20 or the comparative year.

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 |
| Revenue recognition – whether revenue from contracts with customers is recognised over time or at a point in time | 2B |
| 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 |
| Lease terms – whether Commonwealth entities are reasonably certain to exercise extension options | 5D, 6D |
| Measurement of defined benefit obligations — principal actuarial assumptions | 6F, 9C |
| Recognition and measurement of provisions and contingencies — key assumptions about the likelihood and magnitude of an outflow or inflow of resources | 6H, 9A |

The ABS GFS Manual requires assets and liabilities to be measured at market value. Under AASB 1049, the Australian Government applies the AASB 13 *Fair Value Measurement* 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 entity’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 rate of return expected to pay on average 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* (Constitution) provides that no amount may be paid out of the Consolidated Revenue Fund except under an appropriation made by law. It is important to note that it is not possible in all instances to fully remove the potential for Section 83 breaches under existing legislation. In many cases the Australian Government relies on information provided by payment recipients to calculate and pay appropriate entitlements and this information is not always timely or accurate.

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

In 2019-20, actual breaches of Section 83 were identified across eight Commonwealth entities, with a total value of $14.8 billion (2018‑19:  $79.8 million). The breaches identified in 2019-20 include the payment of GST made to non-government schools since 2000-01 for funding provided under the *Australian Education Act 2013* and previous legislation, totalling $14.6 billion in value. These technical breaches have been rectified, with further detail provided in the financial statements of the Department of Education, Skills and Employment.

Impacts from the COVID-19 pandemic

On 11 March 2020, the World Health Organisation declared a global pandemic as a result of the outbreak and spread of COVID-19. The outbreak of COVID-19 has created a significant deterioration in global economic conditions. Governments internationally have responded by implementing policy responses to protect the health of citizens and to support their economies. The Australian Government introduced a number of measures to support Australian households, businesses and industries who have been adversely affected by the COVID-19 pandemic. At the same time, tax collections were lower than expected due to the effects of bushfires and the COVID-19 pandemic. There is also increased uncertainty surrounding the expected value and timing of repayments of tax and other receivables. The downturn in the economy and the fiscal response has resulted in pronounced increases in debt issuance to meet funding requirements.

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.
* **Revenue from 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 as well as rental income which relates to income received in return for the right-to-use an asset.
* **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 sources of 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, the collection of child support payments to pass on to custodial parents and in-kind contributions from states and territories for services provided under the National Disability Support Scheme.
  1. Taxation revenue

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | General Government | |  | Australian Government | |
|  | 2020 | 2019 |  | 2020 | 2019 |
|  | $m | $m |  | $m | $m |
| **Income taxation** |  |  |  |  |  |
| Individuals and other withholding taxes |  |  |  |  |  |
| Gross income tax withholding | 217,095 | 206,403 |  | 217,095 | 206,403 |
| Gross other individuals | 48,855 | 51,555 |  | 48,855 | 51,555 |
| *less* Refunds | (36,219) | (29,514) |  | (36,219) | (29,514) |
| Total individuals and other withholding taxation | 229,731 | 228,444 |  | 229,731 | 228,444 |
| Fringe benefits tax | 3,939 | 3,893 |  | 3,939 | 3,893 |
| Company tax | 87,846 | 94,844 |  | 87,625 | 94,532 |
| Superannuation funds taxes | 6,621 | 10,910 |  | 6,621 | 10,910 |
| Resource rent taxes | 921 | 1,202 |  | 921 | 1,202 |
| **Total income taxation revenue** | **329,058** | **339,293** |  | **328,837** | **338,981** |
|  |  |  |  |  |  |
| **Indirect taxation** |  |  |  |  |  |
| Sales taxes |  |  |  |  |  |
| Goods and services tax | 65,079 | 66,385 |  | 65,079 | 66,385 |
| Wine equalisation tax | 1,040 | 995 |  | 1,040 | 995 |
| Luxury car tax | 632 | 688 |  | 632 | 688 |
| **Total sales taxes** | **66,751** | **68,068** |  | **66,751** | **68,068** |
| Excise duty revenue(a) | 23,116 | 23,489 |  | 23,116 | 23,489 |
| Customs duty revenue(a) | 19,507 | 15,943 |  | 19,507 | 15,943 |
| Other indirect taxation |  |  |  |  |  |
| Major bank levy | 1,639 | 1,566 |  | 1,639 | 1,566 |
| Agricultural levies | 469 | 563 |  | 469 | 563 |
| Other taxes | 6,778 | 7,281 |  | 6,778 | 7,281 |
| **Total other indirect taxation revenue** | **8,886** | **9,410** |  | **8,886** | **9,410** |
| Mirror taxes | 593 | 607 |  | 593 | 607 |
| *less* Transfers to States in relation to mirror tax revenue | (593) | (607) |  | (593) | (607) |
| Mirror tax revenue | - | - |  | - | - |
| **Total indirect taxation revenue** | **118,260** | **116,910** |  | **118,260** | **116,910** |
|  |  |  |  |  |  |
| **Total taxation revenue** | **447,318** | **456,203** |  | **447,097** | **455,891** |

1. The 2019-20 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. |
| Major bank levy | ETM | Calculated within the reporting period on authorised deposit-taking institutions with a total liability threshold of greater than $100 billion. |

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 Benchmarks and Variations 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 | |
|  | 2020 | 2019 |  | 2020 | 2019 |
|  | $m | $m |  | $m | $m |
| **Revenue from contracts with customers** |  |  |  |  |  |
| Sales of goods | 1,324 | 1,306 |  | 4,430 | 4,538 |
| Rendering of services | 11,424 | 9,545 |  | 24,240 | 21,436 |
| Fees from regulatory services(a) | 425 | - |  | 425 | - |
| **Total revenue from contracts with customers** | 13,173 | 10,851 |  | 29,095 | 25,974 |
| **Rental income(b)** |  |  |  |  |  |
| Operating lease(c) | 386 | 380 |  | 456 | 441 |
| **Total rental income** | 386 | 380 |  | 456 | 441 |
| **Other fees and charges** |  |  |  |  |  |
| Rendering of services(a) | 354 | - |  | 578 | - |
| Other fees from regulatory services | 876 | 1,257 |  | 876 | 1,257 |
| **Total other fees and charges** | 1,230 | 1,257 |  | 1,454 | 1,257 |
|  |  |  |  |  |  |
| **Total sales of goods and services** | **14,789** | **12,488** |  | **31,005** | **27,672** |

1. The Australian Government has applied AASB 15 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under AASB 118.
2. The Australian Government has applied AASB 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under AASB 117.
3. Comprises revenue from operating leases where an Australian Government entity is the lessor.

##### **Disaggregation of revenue from contracts with customers**

|  |  |  |  |
| --- | --- | --- | --- |
|  | General Government |  | Australian Government |
|  | 2020 |  | 2020 |
|  | $m |  | $m |
| **Function of government** |  |  |  |
| Transport and Communications | 59 |  | 12,577 |
| Social Security and Welfare | 8,064 |  | 8,064 |
| Fuel and Energy | 2 |  | 2,708 |
| General Public Services | 923 |  | 1,383 |
| Other Economic Affairs | 800 |  | 942 |
| Health | 691 |  | 744 |
| Other | 2,634 |  | 2,677 |
|  | **13,173** |  | **29,095** |

**Sale of goods**

Revenue from the generation and sale of electricity by Snowy Hydro Limited (SHL) currently accounts for some 61 per cent of Australian Government sales of goods revenue and is recognised at a point in time, being when SHL fulfils its performance obligations in generating energy.

**Rendering of services**

Revenue from postal services currently accounts for over 29 per cent of Australian Government rendering of services revenue and includes domestic mail products, parcels and express services and international letters and parcels along with associated retail services. The collection, processing and distribution of articles is identified collectively as a single performance obligation to deliver the series of articles lodged to the specified destination in the manner requested by the customer and is recognised progressively over time.

Telecommunications revenue for nbn Co currently accounts for over 16 per cent of Australian Government rendering of services revenue and includes recurring wholesale-only broadband network revenue and recurring facility access services revenue. The performance obligations associated with these products are satisfied over time. Non-refundable upfront fees for connection and installation charges and similar are recognised at the point in time when these services are provided.

##### Remaining performance obligations

The Australian Government’s contracts with customers for certain products and services include performance obligations which Commonwealth entities have either not satisfied, or partially satisfied, at 30 June 2020.

Other fees and services

The requirements of AASB 1058 apply to not-for-profit transactions that are not contracts with customers. The timing of income recognition depends on whether such a transaction gives rise to a liability or other performance obligation (a promise to transfer a good or service), or a contribution by owners, related to an asset (such as cash or another asset), received by an entity.

Revenue is recognised upon receipt of funding, unless received to construct non‑financial assets which are recognised as unearned revenue when received, and subsequently recognised progressively through construction of the asset.

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.

Operating lease receivables

The following table sets out a maturity analysis of lease receipts, showing the undiscounted lease payments to be received after the reporting date.

|  |  |  |  |
| --- | --- | --- | --- |
| **Maturity analysis of operating lease income receivables:** | General Government |  | Australian Government |
| 2020 |  | 2020 |
|  | $m |  | $m |
| Within 1 year | 53 |  | 104 |
| One to two years | 40 |  | 87 |
| Two to three years | 34 |  | 74 |
| Three to four years | 33 |  | 60 |
| Four to five years | 27 |  | 41 |
| More than 5 years | 141 |  | 185 |
| **Total undiscounted lease payments receivable** | **328** |  | **551** |

* 1. Interest and dividend income

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | General Government | |  | Australian Government | |
|  | 2020 | 2019 |  | 2020 | 2019 |
|  | $m | $m |  | $m | $m |
| **Interest from other governments** |  |  |  |  |  |
| State and territory debt | 33 | 56 |  | 33 | 56 |
| Housing agreements | 87 | 98 |  | 87 | 98 |
| General purpose advances | - | - |  | 173 | 112 |
| **Total interest from other governments** | **120** | **154** |  | **293** | **266** |
|  |  |  |  |  |  |
| **Interest from other sources** |  |  |  |  |  |
| Indexation of HELP receivable and other student loans | 797 | 645 |  | 797 | 645 |
| Securities | 1,051 | 1,253 |  | 1,066 | 1,278 |
| Advances, deposits and other | 1,721 | 2,403 |  | 2,760 | 3,837 |
| **Total interest from other sources** | **3,569** | **4,301** |  | **4,623** | **5,760** |
|  |  |  |  |  |  |
| **Total interest** | **3,689** | **4,455** |  | **4,916** | **6,026** |
|  |  |  |  |  |  |
| **Dividends** |  |  |  |  |  |
| Dividends from other public sector entities | 2,877 | 1,915 |  | - | - |
| Other dividends | 5,489 | 7,707 |  | 5,558 | 7,797 |
| **Total dividends** | **8,366** | **9,622** |  | **5,558** | **7,797** |
|  |  |  |  |  |  |
| **Total interest and dividend income** | **12,055** | **14,077** |  | **10,474** | **13,823** |

##### 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 | |
|  | 2020 | 2019 |  | 2020 | 2019 |
|  | $m | $m |  | $m | $m |
| Royalties | 992 | 1,432 |  | 992 | 1,432 |
| Seigniorage | 57 | 62 |  | 57 | 62 |
| Child support payments | 1,715 | 1,657 |  | 1,715 | 1,657 |
| Loan fees | 98 | 174 |  | 98 | 174 |
| PBS drug recoveries | 2,785 | 2,242 |  | 2,785 | 2,242 |
| Contributions in-kind from state and territory governments | 1,507 | 1,259 |  | 1,507 | 1,259 |
| Other | 4,754 | 3,794 |  | 4,583 | 3,609 |
| **Total other sources of non-taxation revenue** | **11,908** | **10,620** |  | **11,737** | **10,435** |

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 | |
|  | 2020 | 2019 |  | 2020 | 2019 |
|  | $m | $m |  | $m | $m |
|  |  |  |  |  |  |
| **Wages and salaries expenses** | **20,721** | **19,775** |  | **25,482** | **24,337** |
|  |  |  |  |  |  |
| **Other operating expenses** |  |  |  |  |  |
| Leave and other entitlements | 3,217 | 3,312 |  | 3,783 | 3,934 |
| Separations and redundancies | 213 | 243 |  | 273 | 313 |
| Workers compensation premiums and claims | 2,556 | 1,866 |  | 2,618 | 1,917 |
| Allowances, FBT and other | 2,526 | 2,442 |  | 2,612 | 2,532 |
| **Total other operating expenses** | **8,512** | **7,863** |  | **9,286** | **8,696** |
|  |  |  |  |  |  |
| **Superannuation expenses** |  |  |  |  |  |
| Superannuation | 12,247 | 9,136 |  | 12,865 | 9,695 |
| Superannuation interest | 7,673 | 9,444 |  | 7,673 | 9,444 |
| **Total superannuation expenses** | **19,920** | **18,580** |  | **20,538** | **19,139** |
|  |  |  |  |  |  |
| **Total employee and superannuation expenses(a)** | **49,153** | **46,218** |  | **55,306** | **52,172** |

1. Employee benefits accounting policies are disclosed in Note 6F and superannuation is disclosed in Note 9C.

* 1. Depreciation and amortisation expenses

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | General Government | |  | Australian Government | |
|  | 2020 | 2019 |  | 2020 | 2019 |
|  | $m | $m |  | $m | $m |
| **Depreciation** |  |  |  |  |  |
| Specialist military equipment | 4,615 | 4,620 |  | 4,615 | 4,620 |
| Buildings | 3,962 | 1,486 |  | 4,416 | 1,646 |
| Other plant, equipment and infrastructure | 2,067 | 1,653 |  | 5,673 | 4,333 |
| Heritage and cultural assets | 75 | 78 |  | 75 | 78 |
| Land | 5 | - |  | 12 | - |
| **Total depreciation** | **10,724** | **7,837** |  | **14,791** | **10,677** |
| **Amortisation** |  |  |  |  |  |
| Assets held under finance leases | - | 66 |  | - | 360 |
| Computer software | 1,042 | 1,110 |  | 1,595 | 1,629 |
| Other intangibles | 64 | 93 |  | 153 | 181 |
| **Total amortisation** | **1,106** | **1,269** |  | **1,748** | **2,170** |
| *add back* Amortisation of non-produced assets | (64) | (93) |  | (153) | (181) |
| **Total depreciation and amortisation expense(a)** | **11,766** | **9,013** |  | **16,386** | **12,666** |

1. Includes depreciation and amortisation relating to right-of-use assets which is separately disclosed in Note 5D.

##### Depreciation

Land, being an asset with an unlimited useful life, is not depreciated. The depreciation amounts reported above represent the right-of-use of land held under lease arrangements. Some heritage and cultural assets are not depreciated as they are considered to have infinite useful lives given they have appropriate curatorial and preservation policies and procedures in place. 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.

|  |  |  |
| --- | --- | --- |
|  | 2020 | 2019 |
| Buildings | 1‑200 years | 1‑200 years |
| Specialist military equipment | 2‑52 years | 1‑50 years |
| Other plant, equipment and infrastructure | 1‑480 years | 1‑400 years |
| Heritage and cultural assets | 1‑5,000 years | 1‑5,000 years |

The depreciation rates for right-of-use assets are based on the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

##### 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:

|  |  |  |
| --- | --- | --- |
|  | 2020 | 2019 |
| Computer software | 1‑26 years | 1‑26 years |
| Other intangibles | 1‑100 years | 1‑100 years |

* 1. Supply of goods and services

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | General Government | |  | Australian Government | |
|  | 2020 | 2019 |  | 2020 | 2019 |
|  | $m | $m |  | $m | $m |
| Supply of goods and services | 31,482 | 29,154 |  | 39,353 | 37,385 |
| Use of inventory | 2,855 | 2,743 |  | 3,208 | 3,094 |
| Health care payments | 5,689 | 4,686 |  | 5,691 | 4,688 |
| Benefits to households in goods and services | 81,926 | 71,884 |  | 81,928 | 71,886 |
| Operating lease rental expenses(a) | - | 2,637 |  | - | 2,983 |
| Short-term leases | 248 | - |  | 1,177 | - |
| Low-value leases | 6 | - |  | 56 | - |
| Variable lease payments | 4 | - |  | 5 | - |
| Other | 3,245 | 4,084 |  | 3,756 | 4,496 |
| **Total payment for supply of goods and services** | **125,455** | **115,188** |  | **135,174** | **124,532** |

1. The Australian Government has applied AASB 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under AASB 117.

The above lease disclosures should be read in conjunction with the accompanying Notes 2B, 3D, 4B, 5D and 6D.

##### 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.

##### Short-term leases and leases of low-value assets

The Australian Government has elected not to recognise right-of-use assets and lease liabilities for short-term leases of assets that have a lease term of 12 months or less and leases of low-value assets (less than $10,000). The Australian Government recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

##### 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 arrangements including commercial, industrial and retail sites subleased by Australia Post (2020: $38 million; 2019: $146 million) and facilities and diplomatic land subleased by the National Capital Authority in Canberra (2020: $65 million; 2019: $67 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 | |
|  | 2020 | 2019 |  | 2020 | 2019 |
|  | $m | $m |  | $m | $m |
| **Interest on debt** |  |  |  |  |  |
| Government securities | 16,742 | 17,088 |  | 16,742 | 17,088 |
| Taxation overpayments | 119 | 113 |  | 119 | 113 |
| Exchange settlement funds | - | - |  | 205 | 412 |
| Other | 59 | 84 |  | 294 | 364 |
| **Total interest on debt** | **16,920** | **17,285** |  | **17,360** | **17,977** |
|  |  |  |  |  |  |
| **Other financing costs** |  |  |  |  |  |
| Discount on concessional instruments | 657 | 322 |  | 731 | 364 |
| Unwinding of provisions and other | 522 | 367 |  | 528 | 373 |
| Finance charges for leases(a) | - | 104 |  | - | 761 |
| Interest on lease liabilities | 364 | - |  | 1,238 | - |
| **Total other financing costs** | **1,543** | **793** |  | **2,497** | **1,498** |
|  |  |  |  |  |  |
| **Total interest expense** | **18,463** | **18,078** |  | **19,857** | **19,475** |

1. The Australian Government has applied AASB 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under AASB 117.

The above lease disclosures should be read in conjunction with the accompanying Notes 2B, 3C, 4B, 5D and 6D.

##### Interest expense

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

* 1. Grants expense

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | General Government | |  | Australian Government | |
|  | 2020 | 2019 |  | 2020 | 2019 |
|  | $m | $m |  | $m | $m |
| **Current grants expense** |  |  |  |  |  |
| State and territory governments(a) | 118,096 | 117,727 |  | 118,096 | 117,727 |
| Private sector | 10,500 | 9,857 |  | 10,500 | 9,857 |
| Overseas | 3,916 | 3,803 |  | 3,916 | 3,803 |
| Non-profit organisations | 5,652 | 5,330 |  | 5,652 | 5,330 |
| Multi-jurisdictional sector | 10,391 | 10,220 |  | 10,391 | 10,220 |
| Other | 1,244 | 1,045 |  | 1,214 | 1,019 |
| **Total current grants expense** | **149,799** | **147,982** |  | **149,769** | **147,956** |
| **Capital grants expense** |  |  |  |  |  |
| Mutually agreed write-downs | 3,114 | 1,243 |  | 3,114 | 1,243 |
| *Other capital grants expense* |  |  |  |  |  |
| State and territory governments(a) | 7,064 | 8,768 |  | 7,064 | 8,768 |
| Local governments | 634 | 436 |  | 634 | 436 |
| Non-profit organisations | 627 | 550 |  | 627 | 550 |
| Private sector | 52 | 85 |  | 52 | 85 |
| Other | 191 | 116 |  | 32 | 9 |
| *Total other capital grants expense* | 8,568 | 9,955 |  | 8,409 | 9,848 |
| **Total capital grants expense** | **11,682** | **11,198** |  | **11,523** | **11,091** |
|  |  |  |  |  |  |
| **Total grants expense** | **161,481** | **159,180** |  | **161,292** | **159,047** |

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 2019-20 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 | |
|  | 2020 | 2019 |  | 2020 | 2019 |
|  | $m | $m |  | $m | $m |
| General public services | 29,464 | 26,518 |  | 30,142 | 27,484 |
| Defence | 33,213 | 30,759 |  | 33,271 | 30,799 |
| Public order and safety | 6,388 | 5,774 |  | 6,238 | 5,770 |
| Education | 39,885 | 34,578 |  | 39,885 | 34,578 |
| Health | 87,023 | 80,196 |  | 87,185 | 80,322 |
| Social security and welfare | 196,231 | 169,896 |  | 196,053 | 169,715 |
| Housing and community amenities | 5,332 | 5,014 |  | 5,424 | 5,065 |
| Recreation and culture | 3,971 | 3,982 |  | 3,970 | 3,982 |
| Fuel and energy | 7,892 | 7,698 |  | 10,553 | 10,264 |
| Agriculture, forestry and fishing | 2,584 | 2,611 |  | 2,584 | 2,611 |
| Mining, manufacturing and construction | 2,819 | 2,505 |  | 2,910 | 2,609 |
| Transport and communication | 7,321 | 8,125 |  | 24,961 | 24,412 |
| Other economic affairs | 65,494 | 9,714 |  | 65,727 | 9,839 |
| Other purposes | 91,056 | 97,132 |  | 91,060 | 97,129 |
| **Total expenses** | **578,673** | **484,502** |  | **599,963** | **504,579** |

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 | |
|  | 2020 | 2019 |  | 2020 | 2019 |
|  | $m | $m |  | $m | $m |
| **Financial assets** |  |  |  |  |  |
| **Receivables – impairment gain or loss** |  |  |  |  |  |
| Taxes due | 6,745 | 5,558 |  | 6,745 | 5,558 |
| Receivables from contracts with customers | 142 | 122 |  | 193 | 152 |
| Other | 717 | 103 |  | 737 | 105 |
| **Total financial write-down and impairment** | **7,604** | **5,783** |  | **7,675** | **5,815** |
|  |  |  |  |  |  |
| **Non-financial assets** |  |  |  |  |  |
| Inventories | 303 | 402 |  | 311 | 407 |
| Land | 2 | 31 |  | 8 | 31 |
| Buildings | 91 | 45 |  | 91 | 112 |
| Specialist military equipment | (7) | 322 |  | (7) | 322 |
| Other infrastructure, plant and equipment | 113 | 39 |  | 892 | 581 |
| Heritage and cultural assets | 1 | 1 |  | 1 | 1 |
| Intangibles | 118 | 21 |  | 130 | 33 |
| **Net write-down, impairment and fair value losses arising from the revaluation of non-financial assets** | **621** | **861** |  | **1,426** | **1,487** |
|  |  |  |  |  |  |
| **Total net write-down and impairment of assets and fair value losses** | **8,225** | **6,644** |  | **9,101** | **7,302** |

##### Impairment of statutory receivables - taxes due

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

##### Impairment of receivables from contracts with customers

Applying the simplified approach under AASB 9 *Financial Instruments*, an impairment loss allowance is recognised for goods and services receivable based on lifetime expected credit losses (ECLs). Australian Government entities use impairment loss allowance matrices to measure the ECL from individual customers, which comprise a very large number of small balances. Estimated losses are based on previous credit loss experience, adjusted to reflect changes in economic conditions where appropriate.

##### Impairment of non-financial assets

Non-financial assets were assessed for impairment at 30 June 2020. 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 | |
|  | 2020 | 2019 |  | 2020 | 2019 |
|  | $m | $m |  | $m | $m |
| **Financial assets** |  |  |  |  |  |
| Net gains/(losses) from sale of investments | 1,933 | 3,348 |  | 1,713 | 3,495 |
|  |  |  |  |  |  |
| **Non-financial assets** |  |  |  |  |  |
| Proceeds from sale of non-financial assets | 1,320 | 187 |  | 1,406 | 419 |
| *less* selling costs | (34) | (13) |  | (49) | (13) |
| *less* written down value of assets sold | (1,143) | (197) |  | (1,218) | (373) |
| **Net gains/(losses) - non-financial assets** | **143** | **(23)** |  | **139** | **33** |
| **Net gains/(losses) from sale of assets** | **2,076** | **3,325** |  | **1,852** | **3,528** |
| *add back* selling costs included in expenses | 34 | 13 |  | 49 | 13 |
| **Net gains/(losses) from sale of assets in other economic flows** | **2,110** | **3,338** |  | **1,901** | **3,541** |

* 1. Other gains/(losses)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | General Government | |  | Australian Government | |
|  | 2020 | 2019 |  | 2020 | 2019 |
|  | $m | $m |  | $m | $m |
| **Foreign exchange** |  |  |  |  |  |
| Net foreign exchange gains/(losses) | (949) | (41) |  | 358 | 3,129 |
| **Net foreign exchange gains/(losses)** | **(949)** | **(41)** |  | **358** | **3,129** |
|  |  |  |  |  |  |
| **Interest on derivatives** |  |  |  |  |  |
| Net swap interest revenue | 4,235 | 2,182 |  | 4,321 | 2,284 |
| Net swap interest expense | (4,798) | (2,804) |  | (4,857) | (2,888) |
| **Net interest on derivatives** | **(563)** | **(622)** |  | **(536)** | **(604)** |
|  |  |  |  |  |  |
| **Fair value through profit or loss** |  |  |  |  |  |
| Net fair value losses - financial instruments | (18,005) | (31,128) |  | (18,204) | (31,040) |
| Net fair value gains/(losses) - investment properties | 1 | 1 |  | (3) | 12 |
| **Net fair value gains/(losses)** | **(18,004)** | **(31,127)** |  | **(18,207)** | **(31,028)** |
|  |  |  |  |  |  |
| **Other** |  |  |  |  |  |
| Net repurchase premia | (399) | (896) |  | (399) | (896) |
| Net actuarial gains/(losses) | (7,962) | (10,103) |  | (8,314) | (10,453) |
| Amortisation of non-produced assets | (64) | (93) |  | (153) | (181) |
| Net result from associates and joint ventures | (34) | 151 |  | (24) | 165 |
| Other | 246 | 620 |  | 241 | 670 |
| **Net other gains/(losses)** | **(8,213)** | **(10,321)** |  | **(8,649)** | **(10,695)** |
|  |  |  |  |  |  |
| **Total other gains/(losses)** | **(27,729)** | **(42,111)** |  | **(27,034)** | **(39,198)** |

##### 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 and losses in financial assets and liabilities categorised as ‘held at fair value through profit or loss’ (FVTPL) and fair value movements in biological assets and investment properties. Financial assets categorised as FVTPL include student loans and investments held by the Future Fund and other Australian Government Investment Funds. Financial liabilities classified as FVTPL include Government securities.

##### Other gains/(losses)

Other gains/(losses) include:

* the actuarial revaluation of provisions, other than superannuation;
* the amortisation of intangible ‘non-produced’ assets such as goodwill and purchased trademarks;
* net purchase premia on Government securities; and
* gains and losses from Australian Government investments in associates and joint ventures.

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



#### General recognition and measurement policies

##### Financial assets

Financial assets are classified in accordance with the Universal Presentation Framework 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. The classification of financial assets under AASB 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. 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 are not contractual in nature. Financial assets are allocated into the following categories:

|  |  |  |  |
| --- | --- | --- | --- |
| AASB *9 Financial Instruments* | | | Statutory receivables, gold holdings and equity accounted investments |
| Amortised cost | Fair value through other comprehensive income (FVOCI) | Financial assets at fair value through profit or loss (FVTPL) |
| Financial assets held in order to collect contractual cash flows, the contractual terms of which give rise to cash flows which are solely payments of principal and interest (SPPI) on the amount outstanding. | Financial assets which give rise to cash flows which are SPPI on the amount outstanding and which are held for collecting cash flows and/or for selling.  Equity investments are also categorised FVOCI where the Australian Government intends to hold for the long term for policy purposes. | Financial assets which do not meet the SPPI criteria or are irrevocably designated as such in order to eliminate or reduce a recognition or measurement inconsistency.  Certain equity investments are designated as FVTPL because their performance is actively monitored and they are managed on a fair value basis.  Concessional and other loans are categorised as FVTPL where they exhibit repayment features that are not SPPI. | Financial assets which are statutory in nature, or are excluded from the scope of AASB 9.  Statutory receivables are measured at amortised cost. Gold holdings are valued at fair value.  Equity accounted investments are recognised and measured in accordance with AASB 128, *Investments in Associates and Joint Ventures.* |

Financial assets at amortised cost or FVOCI are assessed for impairment at each balance date as follows:

| Financial asset category | Recognition and measurement of impairment loss |
| --- | --- |
| Financial assets held at amortised cost: Contractual | Measured based on Expected Credit Losses (ECL), using the general approach which measures the loss allowance based on an amount equal to lifetime expected credit losses where risk has significantly increased, or an amount equal to 12 month expected credit losses if risk has not increased.  The simplified approach for trade, contract and lease receivables is used. This approach always measures the loss allowance as the amount equal to the lifetime expected credit losses.  The impairment is recognised by way of an allowance loss account which reduces the carrying amount of the financial asset, with the loss recognised in the operating statement as an ‘other economic flow – included in operating result’. |
| Financial assets held at FVOCI | Measured based on ECL as per financial assets held at amortised cost.  The impairment does not reduce the carrying amount of the financial asset, which is held at fair value, but is recognised in the operating statement as an ‘other economic flow – other non-owner movements in equity’. |
| Statutory receivables | Measured based on estimated incurred losses with the impairment loss representing the 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.  The impairment is recognised by way of an allowance loss account which reduces the carrying amount of the financial asset, with the loss recognised in the operating statement as an ‘other economic flow – included in operating result’. |

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).

Land and buildings, plant, equipment and infrastructure, heritage and cultural assets and investment properties are stated at fair value. Intangibles are measured at cost unless there is an active market in which case fair value is applied.

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.

Prepayments are recognised at amortised cost.

* 1. Advances paid and receivables

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | General Government | |  | Australian Government | |
|  | 2020 | 2019 |  | 2020 | 2019 |
|  | $m | $m |  | $m | $m |
| **ADVANCES PAID** |  |  |  |  |  |
| Loans to state and territory governments | 2,473 | 3,604 |  | 2,473 | 3,604 |
| Student loans | 52,377 | 51,688 |  | 52,377 | 51,688 |
| Other | 27,500 | 20,366 |  | 10,241 | 8,891 |
| *less* Impairment allowance(a) | (307) | (264) |  | (307) | (265) |
| **Total advances paid** | **82,043** | **75,394** |  | **64,784** | **63,918** |
|  |  |  |  |  |  |
| **OTHER RECEIVABLES** |  |  |  |  |  |
| **Taxes receivable** |  |  |  |  |  |
| Taxes receivable | 61,249 | 47,075 |  | 61,306 | 47,163 |
| *less* Impairment allowance | (20,758) | (15,614) |  | (20,758) | (15,614) |
| *less* Credit amendment allowance | (4,463) | (5,092) |  | (4,463) | (5,092) |
| **Net taxes receivable** | **36,028** | **26,369** |  | **36,085** | **26,457** |
|  |  |  |  |  |  |
| **Personal benefits recoverable** |  |  |  |  |  |
| Recoveries of benefit payments | 5,845 | 5,594 |  | 5,845 | 5,594 |
| *less* Impairment allowance | (2,447) | (1,958) |  | (2,447) | (1,958) |
| **Net personal benefits recoverable** | **3,398** | **3,636** |  | **3,398** | **3,636** |
|  |  |  |  |  |  |
| **Goods and services and other** |  |  |  |  |  |
| Goods and services receivable | 2,117 | 1,325 |  | 3,817 | 3,003 |
| Other receivables | 13,714 | 7,868 |  | 11,495 | 6,398 |
| *less* Impairment allowance | (759) | (912) |  | (855) | (959) |
| **Net goods and services and other** | **15,072** | **8,281** |  | **14,457** | **8,442** |
| **Total other receivables** | **54,498** | **38,286** |  | **53,940** | **38,535** |
|  |  |  |  |  |  |
| **ACCRUED REVENUE** |  |  |  |  |  |
| Accrued taxation revenue | 11,856 | 13,702 |  | 11,856 | 13,702 |
| Other accrued revenue | 678 | 782 |  | 884 | 942 |
| **Total accrued revenue** | **12,534** | **14,484** |  | **12,740** | **14,644** |
|  |  |  |  |  |  |
| **Other receivables and accrued revenue** | **67,032** | **52,770** |  | **66,680** | **53,179** |
|  |  |  |  |  |  |
| **Total advances paid and receivables** | **149,075** | **128,164** |  | **131,464** | **117,097** |
|  |  |  |  |  |  |
| **By maturity:** |  |  |  |  |  |
| No more than 12 months | 58,185 | 49,383 |  | 57,471 | 50,349 |
| More than 12 months | 90,890 | 78,781 |  | 73,993 | 66,748 |
| **Total by maturity** | **149,075** | **128,164** |  | **131,464** | **117,097** |
|  |  |  |  |  |  |
| **By category of financial assets** |  |  |  |  |  |
| Amortised cost | 42,471 | 31,353 |  | 22,703 | 18,537 |
| *Fair value:* |  |  |  |  |  |
| Fair value through profit and loss | 52,473 | 51,815 |  | 54,563 | 53,476 |
| Statutory and other | 54,131 | 44,996 |  | 54,198 | 45,084 |
| **Total by category of financial asset** | **149,075** | **128,164** |  | **131,464** | **117,097** |

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

Advances paid comprises concessional and commercial loans which 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’ are those which exhibit cash flow characteristics which are not solely payments of principal and interest (SPPI) and include HELP student loans.

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 allowance. 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.

##### Accounting judgement and estimate – Expected credit losses (ECLs) on amortised cost receivables

Advances paid, excluding those held at fair value, are assessed for impairment based on ECL models underpinned by assumptions which require judgements about the recoverability of the loan. The judgements are based on expected cash flow forecasts, indicative credit ratings and probabilities of default events occurring. Significant judgement may be involved where there is an absence of market comparisons.

ECL allowances on other contractual receivables and accrued revenue are estimated using the simplified approach through the use of provision matrices based on historical credit loss experience within invoice ageing categories, adjusted for forward-looking estimates of recovery conditions based on macroeconomic data. ECLs are not recognised on receivables or accrued revenue from state and territory government entities as the probability of default is negligible.

Reconciliation of the impairment loss 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 2018 | (226) | (990) |  | (227) | (1,032) |
| *less* Amounts written off | (22) | (146) |  | (22) | (168) |
| *less* Amounts recovered and reversed | 1 | (2) |  | 1 | (2) |
| *plus* Increase/decrease recognised in operating result | (50) | (70) |  | (50) | (97) |
| *plus* Other movement | (9) | - |  | (9) | - |
| **Closing balance at 30 June 2019** | **(264)** | **(912)** |  | **(265)** | **(959)** |
| *less* Amounts written off | (23) | (96) |  | (24) | (117) |
| *less* Amounts recovered and reversed | - | (263) |  | - | (264) |
| *plus* Increase/decrease recognised in operating result | (58) | (206) |  | (58) | (277) |
| *plus* Other movement | (8) | - |  | (8) | - |
| **Closing balance at 30 June 2020** | **(307)** | **(759)** |  | **(307)** | **(855)** |

1. Excludes statutory receivables such as taxes receivable and personal benefits recoverable.

##### Accounting judgement and estimate – Credit risk on fair value advances

The largest of the fair value loans are 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 $58,596 million at 30 June 2020 (2019: $63,312 million) and no collateral is held. The following table shows the changes in the fair value of HELP loans due to credit risk.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  | |  | 2020 | 2019 |
|  |  |  |  | $m | $m |
| Fair value changes (decreases) due to credit risk: |  |  |  |  |  |
| During the period |  |  |  | 1,067 | 1,021 |
| Prior periods (cumulative) |  |  |  | 15,908 | 14,705 |
| **Cumulative change** |  |  |  | **16,975** | **15,726** |

##### Collateral

The majority of Australian Government entities do not hold collateral to manage credit risk. Cash invested in overseas markets by the Reserve Bank of Australia (RBA) under repurchase agreements is secured by collateral to the value of 102 per cent of the cash invested with $22 million sold and contracted for purchase under repurchase agreements (2019: $350 million). Indigenous Business Australia holds collateral in the form of personal guarantees or security against home and business loans of $995 million at 30 June 2020 (2019: $942 million). In addition, the Future Fund received collateral of $1,409 million at 30 June 2020 (2019: $426 million).

##### 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 | |
|  | 2020 | 2019 |  | 2020 | 2019 |
|  | $m | $m |  | $m | $m |
| **Advances paid and receivables at fair value** |  |  |  |  |  |
| Level 2 | 47 | 93 |  | 888 | 454 |
| Level 3 | 52,426 | 51,722 |  | 53,675 | 53,022 |
| **Total fair value** | **52,473** | **51,815** |  | **54,563** | **53,476** |

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 CPI growth, the discount rate (yield curve) and DNER. Level 3 advances paid and receivables are reconciled as follows.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | General Government | |  | Australian Government | |
|  | 2020 | 2019 |  | 2020 | 2019 |
|  | $m | $m |  | $m | $m |
| **Level 3 advances paid and receivables** |  |  |  |  |  |
| Opening balance at 1 July | 51,722 | 40,613 |  | 53,022 | 41,838 |
| Purchases/payments | 7,066 | 6,975 |  | 7,428 | 7,224 |
| Sales/repayments | (3,916) | (3,362) |  | (4,331) | (3,593) |
| Gains/(losses) recognised in the operating result | (2,445) | 7,338 |  | (2,443) | 7,396 |
| Transfers in/(out) of Level 3 | (1) | 158 |  | (1) | 157 |
| **Total fair value** | **52,426** | **51,722** |  | **53,675** | **53,022** |

* 1. Investments, loans and placements

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | General Government | |  | Australian Government | |
|  | 2020 | 2019 |  | 2020 | 2019 |
|  | $m | $m |  | $m | $m |
| Gold | - | - |  | 6,614 | 5,158 |
| Deposits | 75,757 | 34,684 |  | 23,205 | 33,561 |
| Government securities(a) | - | - |  | 187,944 | 130,776 |
| Residential mortgage backed securities | 1,815 | - |  | 1,815 | - |
| International Monetary Fund quota | 13,214 | 13,028 |  | 19,565 | 19,198 |
| Defined benefit superannuation plan assets | - | - |  | 235 | 566 |
| Collective investment vehicles | 76,334 | 76,567 |  | 76,334 | 76,567 |
| Other interest bearing securities | 57,069 | 48,753 |  | 57,807 | 49,717 |
| Other | 19,269 | 14,990 |  | 20,794 | 18,011 |
| **Total investments, loans and placements** | **243,458** | **188,022** |  | **394,313** | **333,554** |
|  |  |  |  |  |  |
| **By category of financial assets** |  |  |  |  |  |
| Amortised cost | 85,398 | 43,389 |  | 174,709 | 127,406 |
| *Fair value:* |  |  |  |  |  |
| Fair value through profit and loss | 144,493 | 131,225 |  | 199,188 | 186,965 |
| Fair value through other comprehensive income | 13,495 | 13,319 |  | 13,496 | 13,320 |
| Other(b) | 72 | 89 |  | 6,920 | 5,863 |
| **Total by category of financial asset** | **243,458** | **188,022** |  | **394,313** | **333,554** |

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 9B. The RBA holds gold and government securities in conducting monetary policy.

##### Recognition and measurement of investments, loans and placements

The fair value of gold holdings is equal to the Australian dollar equivalent of the benchmark rate set at 3.00 pm London time in the London gold market on balance date.

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 are predominantly held by the RBA and are used to manage liquidity risk and for monetary policy. The majority of these securities are recoverable within 12 months. With the exception of securities contracted for sale under repurchase agreements, these securities are classified by the RBA as ‘at fair value through profit or loss’. Securities purchased and contracted for sale under repurchase agreements are 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 FVOCI. The IMF quota is not expected to be realised in the next 12 months.

CIVs are held by the Future Fund and Investment Funds as part of their investment strategy. CIVs are entities that enable investors to pool their money and invest the pooled funds, rather than buying securities directly. They allow the investor to invest in a range of assets, such as debt securities, equity, commodity-linked investments, real estate, shares in other investment funds and structured assets. Investments in CIVs are recorded at fair value on the date which consideration is provided to the contractual counterparty under the terms of the relevant subscription agreement.

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

Investments in CIVs and other interest bearing securities by the Future Fund and Investment Funds are held for the longer term, consistent with each Fund’s 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 | |
|  | 2020 | 2019 |  | 2020 | 2019 |
|  | $m | $m |  | $m | $m |
| **Investments, loans and placements at fair value** |  |  |  |  |  |
| Level 1 | 7,941 | 5,955 |  | 60,425 | 59,531 |
| Level 2 | 58,353 | 46,182 |  | 66,775 | 53,288 |
| Level 3 | 91,694 | 92,407 |  | 92,098 | 92,624 |
| **Total fair value(a)** | **157,988** | **144,544** |  | **219,298** | **205,443** |

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.

In determining the fair value of CIVs, reference is made to the underlying unit price provided by the CIV Manager (where available), associated Manager or independent expert valuation reports and capital account statements and the most recent audited financial statements of each CIV. Manager valuation reports are reviewed to ensure the underlying valuation principles are materially compliant with Australian Accounting Standards and applicable industry standards.

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 | |
|  | 2020 | 2019 |  | 2020 | 2019 |
|  | $m | $m |  | $m | $m |
| **Level 3 investments, loans and placements** |  |  |  |  |  |
| Opening balance at 1 July | 92,407 | 82,819 |  | 92,624 | 83,160 |
| Purchases/payments | 23,221 | 19,907 |  | 23,320 | 19,992 |
| Sales/repayments | (21,254) | (15,197) |  | (21,339) | (15,335) |
| Gains/(losses) recognised in the operating result | (2,827) | 4,957 |  | (2,654) | 4,971 |
| Gains/(losses) recognised in equity | 182 | (1) |  | 182 | (1) |
| Transfers in/(out) of Level 3 | (35) | (78) |  | (35) | (163) |
| **Total fair value** | **91,694** | **92,407** |  | **92,098** | **92,624** |

##### 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 Future Fund utilises credit default swaps for exposure to credit risk. The counterparties for these swaps include major banking firms and their affiliates with exposure managed by utilising multiple counterparties and considering each counterparty’s credit rating. The credit risk exposure is concentrated in securities with ‘A’ ratings. Further detail is provided in the financial statements for the Future Fund Management Agency and Board of Guardians;
* 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;
* Investments, loans and placements managed by the Clean Energy Finance Corporation have a significant concentration of exposure to the energy and renewables sectors as the Corporation has been established for investment in commercialisation and deployment of (or in relation to the use of) Australian based renewable energy, energy efficiency and low emissions technologies (or businesses that supply goods or services needed to develop the same); 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 counterparties.

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

* 1. Equity investments

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | General Government | |  | Australian Government | |
|  | 2020 | 2019 |  | 2020 | 2019 |
|  | $m | $m |  | $m | $m |
| Investments in private funds and corporations | 58,716 | 63,644 |  | 59,401 | 64,191 |
| Investment in public corporations | 63,179 | 57,243 |  | - | - |
| Equity accounted investments | 3,454 | 3,557 |  | 3,642 | 3,728 |
| **Total equity investments** | **125,349** | **124,444** |  | **63,043** | **67,919** |
|  |  |  |  |  |  |
| **By category of financial assets** |  |  |  |  |  |
| *Fair value:* |  |  |  |  |  |
| Fair value through profit and loss | 53,431 | 59,191 |  | 53,594 | 59,262 |
| Fair value through other comprehensive income | 68,464 | 61,696 |  | 5,807 | 4,929 |
| Other | 3,454 | 3,557 |  | 3,642 | 3,728 |
| **Total by category of financial asset** | **125,349** | **124,444** |  | **63,043** | **67,919** |

##### Objective

Shares are held by the Investment Funds as detailed in Note 9B. The Australian Government also holds share equity in international financial institutions and multilateral aid organisations to meet its international policy obligations. The investment in public corporations represents the Government’s ownership interest in 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 | |
|  | 2020 | 2019 |  | 2020 | 2019 |
|  | $m | $m |  | $m | $m |
| **Equity investments at fair value** |  |  |  |  |  |
| Level 1 | 52,608 | 57,963 |  | 52,608 | 57,963 |
| Level 2 | 878 | 754 |  | 878 | 763 |
| Level 3 | 68,409 | 62,170 |  | 5,915 | 5,465 |
| **Total fair value** | **121,895** | **120,887** |  | **59,401** | **64,191** |

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.

The fair value of the GGS investment in the following corporations has been determined based on a discounted cash flow method prepared with the advice of independent valuation experts:

* Australian Postal Corporation was valued at $2,593 million at 30 June 2020 (2019: $2,225 million): The discounted cash flow valuation incorporates cash flow forecasts underpinning Australia Post's 2021-24 Corporate Plan, extrapolated to 30 June 2026 and an estimated terminal value beyond 30 June 2026. The cash flows are discounted using a weighted average cost of capital (WACC) of 7.75 per cent determined with reference to entities that operate in similar industries. The terminal value is escalated by the terminal growth rate based on aggregate long term earnings.

The valuation was subject to independent sensitivity analysis, including sensitivity to the WACC. With all other assumptions being equal, a WACC in the range of 7.5 per cent to 8.5 per cent resulted in a calculated fair value in the range of $2,210 million to $2,720 million.

* Australian Rail Track Corporation (ARTC) was valued at $2,918 million at 30 June 2020 (2019: $3,292 million). The discounted cash flow method was applied to ARTC's valuation of its interstate and Hunter Valley rail network assets, modified where necessary for cash flows associated with its other asset and liability categories. ARTC measures assets arising from construction of the Inland Rail project at cost, with subsequent impairment using multiple valuation methods including market assessments and discounted cash flow calculations. These assets will be integrated into the valuation of ARTC's interstate network assets once the project is substantially complete but have been impaired to zero value, or close to zero value, at 30 June 2020.
* nbn Co Limited (nbn Co) was valued at $13,768 million at 30 June 2020. The investment in nbn Co was previously based on using its adjusted net asset position ($8,738 million at 30 June 2019) while construction of the National Broadband Network (NBN) was in progress. As construction of the NBN was largely complete by 30 June 2020, the GGS investment in nbn Co is now valued using a discounted cash flow valuation. The discounted cash flow valuation adopts an equity approach using the free cash flows forecast in nbn Co's Integrated Operating Plan (IOP) extrapolated to 2040. The cash flow forecasts were adjusted where appropriate for assumptions on investments and other decisions that would be adopted by a hypothetical purchaser and included calculation of a terminal value, discounted using an assumed rate of return on equity of 10.49 per cent.

The discounted cash flow valuation indicated a range between $13,800 million and $15,800 million. A conservative fair value estimate at the lower end of this range was adopted to reflect the sensitivity of the valuation to changes in key assumptions and ongoing uncertainties of the impact of the COVID-19 pandemic on economic conditions. The valuation was subject to independent sensitivity analysis, including sensitivity to the discount rate. With all other assumptions being equal, a discount rate in the range of 9.99 per cent to 10.99 per cent resulted in a calculated fair value in the range of $12,500 million to $15,300 million.

* Snowy Hydro Limited (SHL) was valued at $10,250 million at 30 June 2020 (2019: $10,500 million). The discounted cash flow valuation was supported by crosschecking against the capitalisation of future maintainable earnings method based on an analysis of share trading in energy generation companies.

Other corporations where the GGS investment has been valued applying a discounted cash flow method include Airservices Australia and the Australian Submarine 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 | |
|  | 2020 | 2019 |  | 2020 | 2019 |
|  | $m | $m |  | $m | $m |
| **Level 3 equity investments** |  |  |  |  |  |
| Opening balance at 1 July | 62,170 | 52,295 |  | 5,465 | 4,335 |
| Purchases/Payments | 2,505 | 2,330 |  | 2,560 | 2,370 |
| Sales/Repayments | (285) | (55) |  | (285) | (55) |
| Gains/(losses) recognised in the operating result | (299) | 419 |  | (261) | 430 |
| Gains/(losses) recognised in equity | 4,561 | 273 |  | (1,321) | (1,609) |
| Transfers in/(out) of level 3(a) | (243) | 6,908 |  | (243) | (6) |
| **Total fair value** | **68,409** | **62,170** |  | **5,915** | **5,465** |

1. In 2018-19, the General Government Sector investment in Snowy Hydro Limited (SHL) was transferred from Level 2 into Level 3 of the fair value hierarchy with fair value based on discounted cash flows.
   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 2020** |  |  |  |  |  |  |  |  |  |
| Gross book value | 13,633 | 54,235 | 73,780 | 83,955 | 12,059 | 369 | 17,858 | 6,850 | **262,739** |
| Accumulated depreciation/amortisation | (12) | (6,764) | (2,062) | (16,094) | (81) | - | (10,819) | (808) | **(36,640)** |
| **Net book value at 30 June 2020** | **13,621** | **47,471** | **71,718** | **67,861** | **11,978** | **369** | **7,039** | **6,042** | **226,099** |
|  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |
| Carrying amount of right-of-use assets | 250 | 18,828 | 292 | 10,512 | - | - | - | - | **29,882** |
| **Assets at fair value by level of the fair value hierarchy:** | | | | | | | | | |
| Level 2 | 10,556 | 4,573 | - | 3,538 | 1,741 | 280 | - | - | **20,688** |
| Level 3 | 2,815 | 24,070 | 71,426 | 53,811 | 10,237 | 89 | - | - | **162,448** |
| **Fair value at 30 June 2020** | **13,371** | **28,643** | **71,426** | **57,349** | **11,978** | **369** | **-** | **-** | **183,136** |
|  |  |  |  |  |  |  |  |  |  |
| **Net book value at 30 June 2019(a)** |  |  |  |  |  |  |  |  |  |
| Gross book value | 13,627 | 34,030 | 69,253 | 73,762 | 11,799 | 340 | 16,661 | 6,704 | **226,176** |
| Accumulated depreciation/amortisation | - | (3,985) | (2,671) | (12,561) | (103) | - | (9,781) | (872) | **(29,973)** |
| **Net book value at 30 June 2019** | **13,627** | **30,045** | **66,582** | **61,201** | **11,696** | **340** | **6,880** | **5,832** | **196,203** |
|  |  |  |  |  |  |  |  |  |  |
| **Assets at fair value by level of the fair value hierarchy:** | | | | | | | | | |
| Level 2 | 11,772 | 4,542 | - | 2,808 | 7,674 | 340 | - | - | **27,136** |
| Level 3 | 1,855 | 25,503 | 66,582 | 58,393 | 4,022 | - | - | - | **156,355** |
| **Fair value at 30 June 2019** | **13,627** | **30,045** | **66,582** | **61,201** | **11,696** | **340** | **-** | **-** | **183,491** |

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 2020** |  |  |  |  |  |  |  |  |  |
| Gross book value | 11,723 | 49,480 | 73,780 | 21,523 | 12,059 | 209 | 12,117 | 4,793 | **185,684** |
| Accumulated depreciation/amortisation | (5) | (6,094) | (2,062) | (4,141) | (81) | - | (7,468) | (354) | **(20,205)** |
| **Net book value at 30 June 2020** | **11,718** | **43,386** | **71,718** | **17,382** | **11,978** | **209** | **4,649** | **4,439** | **165,479** |
|  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |
| Carrying amount of right-of-use assets(a) | 159 | 17,394 | 292 | 1,804 | - | - | - | - | **19,649** |
| **Assets at fair value by level of the fair value hierarchy:** | | | | | | | | | |
| Level 2 | 9,091 | 3,196 | - | 1,158 | 1,741 | 209 | - | - | **15,395** |
| Level 3 | 2,468 | 22,796 | 71,426 | 14,420 | 10,237 | - | - | - | **121,347** |
| **Fair value at 30 June 2020** | **11,559** | **25,992** | **71,426** | **15,578** | **11,978** | **209** | **-** | **-** | **136,742** |
|  |  |  |  |  |  |  |  |  |  |
| **Net book value at 30 June 2019(b)** |  |  |  |  |  |  |  |  |  |
| Gross book value | 11,833 | 30,796 | 69,253 | 19,135 | 11,799 | 160 | 11,421 | 4,814 | **159,211** |
| Accumulated depreciation/amortisation | - | (3,501) | (2,671) | (3,799) | (103) | - | (6,979) | (505) | **(17,558)** |
| **Net book value at 30 June 2019** | **11,833** | **27,295** | **66,582** | **15,336** | **11,696** | **160** | **4,442** | **4,309** | **141,653** |
|  |  |  |  |  |  |  |  |  |  |
| **Assets at fair value by level of the fair value hierarchy:** | | | | | | | | | |
| Level 2 | 10,303 | 3,441 | - | 996 | 7,674 | 160 | - | - | **22,574** |
| Level 3 | 1,530 | 23,854 | 66,582 | 14,340 | 4,022 | - | - | - | **110,328** |
| **Fair value at 30 June 2019** | **11,833** | **27,295** | **66,582** | **15,336** | **11,696** | **160** | **-** | **-** | **132,902** |

1. Fair value excludes right-of-use assets which are held at cost.
2. The Australian Government has applied AASB 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under AASB 117.

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 2018** | **13,316** | **29,096** | **62,164** | **54,636** | **11,620** | **341** | **6,403** | **5,164** | **182,740** |
| Additions: |  |  |  |  |  |  |  |  |  |
| Purchases and entity acquisitions | 261 | 2,096 | 8,592 | 9,524 | 54 | 20 | 448 | 595 | **21,590** |
| Acquisition by finance lease | - | 3 | - | 1,103 | - | - | - | - | **1,106** |
| Internally developed | - | - | - | - | - | - | 1,420 | - | **1,420** |
| Revaluations | 307 | 841 | 1,179 | 1,685 | 34 | 14 | - | 5 | **4,065** |
| Depreciation/amortisation expense(a) | - | (1,705) | (4,620) | (4,634) | (78) | - | (1,629) | (181) | **(12,847)** |
| Recoverable amount write-downs | (33) | (124) | (484) | (599) | (2) | - | (69) | (35) | **(1,346)** |
| Reversal of write-downs | - | 15 | 161 | 30 | - | - | 1 | 66 | **273** |
| Other movements | (189) | (129) | (357) | (494) | 69 | (21) | 305 | 218 | **(598)** |
| Disposals | (35) | (48) | (53) | (50) | (1) | (14) | 1 | - | **(200)** |
| **As at 30 June 2019** | **13,627** | **30,045** | **66,582** | **61,201** | **11,696** | **340** | **6,880** | **5,832** | **196,203** |
| Recognition of right-of-use assets on initial application of AASB 16 | 175 | 18,954 | - | 3,219 | - | - | - | - | **22,348** |
| **Adjusted total as at 1 July 2019** | **13,802** | **48,999** | **66,582** | **64,420** | **11,696** | **340** | **6,880** | **5,832** | **218,551** |
| Additions: |  |  |  |  |  |  |  |  |  |
| Purchases and entity acquisitions | 87 | 1,714 | 8,720 | 9,044 | 76 | 43 | 679 | 370 | **20,733** |
| Internally developed | - | - | - | - | - | - | 1,178 | - | **1,178** |
| Right-of-use assets | - | 1,736 | - | 1,063 | - | - | - | - | **2,799** |
| Revaluations | (278) | (164) | 958 | 192 | 211 | (3) | - | 855 | **1,771** |
| Depreciation/amortisation expense(a) | - | (1,756) | (4,584) | (4,869) | (75) | - | (1,595) | (153) | **(13,032)** |
| Depreciation of right-of-use assets | (12) | (2,660) | (31) | (804) | - | - | - | - | **(3,507)** |
| Recoverable amount write-downs | (8) | (92) | (217) | (906) | (1) | - | (123) | (54) | **(1,401)** |
| Recoverable amount write-downs of right-of-use assets | - | (31) | - | - | - | - | - | - | **(31)** |
| Reversal of write-downs | - | 1 | 224 | 25 | - | - | - | 37 | **287** |
| Reclassifications of finance leased assets | (88) | (980) | (323) | (7,058) | - | - | - | - | **(8,449)** |
| Reclassifications to right-of-use assets | 88 | 980 | 323 | 7,058 | - | - | - | - | **8,449** |
| Other movements | 124 | (70) | 92 | (82) | 71 | 1 | 23 | 7 | **166** |
| Other movements of right-of-use assets | (1) | (151) | - | (24) | - | - | - | - | **(176)** |
| Disposals | (93) | (55) | (26) | (198) | - | (12) | (3) | (852) | **(1,239)** |
| **As at 30 June 2020** | **13,621** | **47,471** | **71,718** | **67,861** | **11,978** | **369** | **7,039** | **6,042** | **226,099** |
| **Carrying amount of right-of-use assets** | **250** | **18,828** | **292** | **10,512** | **-** | **-** | **-** | **-** | **29,882** |

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 2018** | **11,598** | **26,345** | **62,164** | **15,480** | **11,620** | **173** | **4,006** | **3,885** | **135,271** |
| Additions: |  |  |  |  |  |  |  |  |  |
| Purchases and entity acquisitions | 255 | 1,907 | 8,592 | 2,061 | 54 | 19 | 371 | 483 | **13,742** |
| Acquisition by finance lease | - | 3 | - | 3 | - | - | - | - | **6** |
| Internally developed | - | - | - | - | - | - | 939 | - | **939** |
| Revaluations | 208 | 553 | 1,179 | 31 | 34 | 3 | - | 5 | **2,013** |
| Depreciation/amortisation expense(a) | - | (1,545) | (4,620) | (1,660) | (78) | - | (1,110) | (93) | **(9,106)** |
| Recoverable amount write-downs | (33) | (57) | (484) | (61) | (2) | - | (61) | (35) | **(733)** |
| Reversal of write-downs | - | 15 | 161 | 30 | - | - | 1 | 66 | **273** |
| Other movements | (186) | 93 | (357) | (507) | 69 | (21) | 294 | (2) | **(617)** |
| Disposals | (9) | (19) | (53) | (41) | (1) | (14) | 2 | - | **(135)** |
| **As at 30 June 2019** | **11,833** | **27,295** | **66,582** | **15,336** | **11,696** | **160** | **4,442** | **4,309** | **141,653** |
| Recognition of right-of-use assets on initial application of AASB 16 | 77 | 17,529 | - | 1,708 | - | - | - | - | **19,314** |
| **Adjusted total as at 1 July 2019** | **11,910** | **44,824** | **66,582** | **17,044** | **11,696** | **160** | **4,442** | **4,309** | **160,967** |
| Additions: |  |  |  |  |  |  |  |  |  |
| Purchases and entity acquisitions | 85 | 1,580 | 8,720 | 2,235 | 76 | 42 | 565 | 193 | **13,496** |
| Internally developed | - | - | - | - | - | - | 822 | - | **822** |
| Right-of-use assets | - | 1,437 | - | 151 | - | - | - | - | **1,588** |
| Revaluations | (292) | (62) | 958 | 113 | 211 | 1 | - | 855 | **1,784** |
| Depreciation/amortisation expense(a) | - | (1,588) | (4,584) | (1,719) | (75) | - | (1,042) | (64) | **(9,072)** |
| Depreciation of right-of-use assets | (5) | (2,374) | (31) | (348) | - | - | - | - | **(2,758)** |
| Recoverable amount write-downs | (2) | (92) | (217) | (127) | (1) | - | (121) | (44) | **(604)** |
| Recoverable amount write-downs of right-of-use assets | - | (30) | - | - | - | - | - | - | **(30)** |
| Reversal of write-downs | - | 1 | 224 | 25 | - | - | - | 37 | **287** |
| Reclassifications of finance leased assets | (88) | (980) | (323) | (290) | - | - | - | - | **(1,681)** |
| Reclassifications to right-of-use assets | 88 | 980 | 323 | 290 | - | - | - | - | **1,681** |
| Other movements | 113 | (140) | 92 | 34 | 71 | 6 | (14) | 5 | **167** |
| Other movements of right-of-use assets | (1) | (148) | - | 3 | - | - | - | - | **(146)** |
| Disposals | (90) | (22) | (26) | (29) | - | - | (3) | (852) | **(1,022)** |
| **As at 30 June 2020** | **11,718** | **43,386** | **71,718** | **17,382** | **11,978** | **209** | **4,649** | **4,439** | **165,479** |
| **Carrying amount of right-of-use assets** | **159** | **17,394** | **292** | **1,804** | **-** | **-** | **-** | **-** | **19,649** |

1. The depreciation/amortisation expense movement includes the amortisation of non-produced intangible assets as reported in Note 4C: *Other gains/(losses).*

##### 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

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. Fair value is estimated using an income (net present value/discounted cash flows) or a cost (current replacement cost (CRC)) approach, 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.

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.

##### Right-of-use assets

Leased right-of-use assets are capitalised at the commencement date of the lease and comprise of: the initial lease liability amount; initial direct costs incurred when entering into the lease; less any lease incentives received. The initial right‑of‑use value will also include the estimated provision for restoration costs where there is a requirement to restore the premises not related to the specific leasehold improvement. These assets are accounted for by Commonwealth lessees as separate asset classes to corresponding assets owned outright, but included in the same column as where the corresponding underlying assets would be presented if they were owned.

On initial adoption of AASB 16, the Australian Government has adjusted the right‑of‑use assets at the date of initial application by the amount of any provision for onerous leases recognised immediately before the date of initial application. Following initial application, an impairment review is undertaken for any right‑of-use lease asset that shows indicators of impairment and an impairment loss is recognised against any right-of-use lease asset that is impaired. Right‑of‑use assets continue to be measured at cost after initial recognition.

##### 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 plant, equipment and infrastructure (Other IPE) | 2 | Market approach  Cost approach | Market transactions  Replacement cost of new assets |
|  | 3 | Market approach  Income approach  Cost approach | Adjusted market transactions  Future cash flows  Replacement cost of new assets  Consumed economic benefit |
| Heritage and cultural assets | 2 | Market approach  Cost approach | Market transactions  Replacement cost of new assets |
|  | 3 | Market approach  Cost approach | Adjusted market transactions  Replacement cost of new assets  Consumed economic benefit |
| Other | 2 | Market approach | Market transactions |

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.

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

*Land*

Land which will continue to be used is valued by independent valuers at fair value (highest and best use). Highest and best use is determined from the perspective of market participants with the current use of the land presumed to be its highest and best use unless market or other factors suggest otherwise.

*Buildings*

The majority of Government owned buildings are in the defence estate, domestic and overseas property portfolio, CSIRO and Parliament House. The fair value of buildings is performed by independent external valuers using inputs such as sales prices of comparable assets, replacement cost, expected useful life and adjustments for obsolescence. Buildings categorised as Level 3 in the fair value hierarchy include those held for specialised purposes and where there is no readily available market price.

*Specialist military equipment*

Specialist military equipment is valued internally by Defence applying a range of valuation techniques and inputs. Valuation techniques include reference to comparable assets, recently purchased assets, recent market data available and indexation based on country of manufacture.

*Other plant, equipment and infrastructure*

This asset class includes a range of cash-generating assets, including those held by public corporations, and assets held for internal use. These assets are typically valued using an income approach or a cost approach. Given the specialised nature of the assets and fact that these assets are not collectively sold or traded, fair value cannot generally be determined with reference to observable market prices or recent market transactions.

Cash generating assets are grouped into cash-generating units for valuation and impairment purposes. Significant infrastructure assets held by the Australian Government include rail infrastructure, electricity generation assets, the broadband network and defence infrastructure.

Rail infrastructure assets were valued at $3,520 million at 30 June 2020. This value was calculated using the income approach reflecting current market expectations of future cash flows discounted to their present value using a post-tax discount rate that reflects an expert's assessment of current market assessments of the time value of money and the business risk. Long term growth rates for annual revenue reflect contract data, GDP and inflation forecasts and have been estimated in the range 1.6 per cent to 3.6 per cent (2019: 2.8 per cent to 4.2 per cent). The nominal post-tax weighted average cost of capital has been estimated in the range of 5.1 per cent to 6.4 per cent (2019: 5.8 per cent to 7.1 per cent). The fair value of these assets is therefore sensitive to changes in these unobservable inputs as illustrated below.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Impact on operating result and net worth | | | | |
|  | 2020 | |  | 2019 | |
|  | + | - |  | + | - |
|  | $m | $m |  | $m | $m |
| Annual revenue (1% revenue movement p.a.) | 128 | (128) |  | 136 | (136) |
| Discount rate (+/- 100bps movement) | (640) | 946 |  | (516) | 1,104 |

Electricity generation assets and related retail assets were valued at $9,303 million at 30 June 2020 by an independent valuer using both the income approach and the cost approach. In calculating the income approach, a nominal pre-tax weighted average cost of capital was estimated in the range of 5.4 per cent to 6.9 per cent, with an adopted rate of 6.1 per cent (2019: 6.5 per cent). The independent valuer developed a range of scenarios to test sensitivity to changes in key assumptions.

Broadband network infrastructure assets were valued at $34,815 million at 30 June 2020 and continue to be valued using a cost approach which involves the calculation of a replacement cost and obsolescence. Replacement cost is the cost that is relevant to determining the price that a market participant would pay as it is based on replicating the utility of the asset. An income approach was not applied to the valuation of the broadband infrastructure assets as it is not possible to reliably identify or attribute income to individual or grouped infrastructure assets (with the exception of leased assets) and the use of the income approach could result in the allocation of intangible assets valued to the tangible infrastructure assets.

Non-cash generating assets include specialised assets and plant and equipment measured by independent valuers at fair value (highest and best use).

*Heritage and cultural assets*

Australian Government cultural organisations hold significant collections of heritage and cultural assets, comprising sculptures, artefacts, paintings, drawings, prints, books, photography and memorabilia. This asset class also includes buildings, residences and equipment that may be used but which are primarily held for their heritage or cultural significance.

Heritage and cultural assets are stored, managed, displayed, repaired and restored in ways that will maintain their cultural or heritage value over time. The valuation method for heritage and cultural collections is by market based evidence where a market exists for items in the collection. The valuation of heritage and cultural assets categorised as Level 3 in the fair value hierarchy can be subject to a high level of estimation uncertainty where collection assets are unique and there are few comparable transactions and/or a limited market.

##### 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 2018** | 1,460 | 22,927 | 62,020 | 14,344 | 3,979 |  | 1,838 | 24,747 | 62,020 | 52,624 | 3,979 |
| Additions | 6 | 1,760 | 8,592 | 1,775 | 33 |  | 6 | 1,862 | 8,592 | 9,469 | 33 |
| Disposals | - | (13) | (385) | (25) | (1) |  | (17) | (14) | (385) | (39) | (1) |
| Gains/(losses) recognised in the operating result | (1) | (1,347) | (4,824) | (1,001) | (46) |  | (1) | (1,503) | (4,824) | (4,413) | (46) |
| Gains/(losses) recognised in equity | 23 | 331 | 1,179 | (686) | 21 |  | 37 | 498 | 1,179 | 874 | 21 |
| Transfers in/(out) of level 3 | 42 | 196 | - | (67) | 36 |  | (8) | (87) | - | (122) | 36 |
| **As at 30 June 2019** | **1,530** | **23,854** | **66,582** | **14,340** | **4,022** |  | **1,855** | **25,503** | **66,582** | **58,393** | **4,022** |
| Additions | 8 | 1,394 | 8,720 | 1,192 | 62 |  | 8 | 1,620 | 8,720 | 7,030 | 62 |
| Disposals | (5) | (1) | (26) | (19) | (1) |  | (5) | (135) | (26) | (29) | (1) |
| Gains/(losses) recognised in the operating result | (18) | (1,428) | (4,485) | (1,148) | (60) |  | (17) | (1,587) | (4,485) | (4,987) | (60) |
| Gains/(losses) recognised in equity | 99 | (156) | 958 | 258 | 203 |  | 106 | (224) | 958 | 390 | 203 |
| Transfers in/(out) of level 3(a) | 854 | (867) | (323) | (203) | 6,011 |  | 868 | (1,107) | (323) | (6,986) | 6,011 |
| **As at 30 June 2020** | **2,468** | **22,796** | **71,426** | **14,420** | **10,237** |  | **2,815** | **24,070** | **71,426** | **53,811** | **10,237** |

1. An independent revaluation undertaken during the year of the heritage and cultural assets held by the National Gallery of Australia determined that the valuation inputs used were more aligned to level 3 of the fair value hierarchy given the diverse nature of the assets held. This resulted in a transfer into level 3 as these assets were previously valued using level 2 inputs. In addition, other infrastructure, plant and equipment assets held by nbn Co, that were previously finance leases under AASB 117 and included in level 3, are now considered right-of-use assets under AASB 16 and held at cost.

##### Contractual capital commitments

At the reporting date, commitments for capital works comprised:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | General Government | |  | Australian Government | |
|  | 2020 | 2019 |  | 2020 | 2019 |
|  | $m | $m |  | $m | $m |
| **Capital commitments** |  |  |  |  |  |
| Buildings | 1,502 | 1,543 |  | 1,829 | 2,118 |
| Specialist military equipment | 24,416 | 22,860 |  | 24,416 | 22,860 |
| Other plant, equipment and intangibles | 1,622 | 904 |  | 9,591 | 11,850 |
| **Total capital commitments** | **27,540** | **25,307** |  | **35,836** | **36,828** |

##### Assets under construction

Australian Government assets under construction include $2,222 million (2019: $1,729 million) in land and buildings, $7,491 million (2019: $14,091 million) in specialist military equipment and $8,405 million (2019: $7,318 million) in other plant, equipment and infrastructure (including computer software and intangibles).

GGS assets under construction include $2,175 million (2019: $1,728 million) in land and buildings, $7,491 million (2019: $14,091 million) in specialist military equipment and $4,087 million (2019: $2,728 million) in other plant, equipment and infrastructure (including computer software and intangibles).

* 1. Inventories

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | General Government | |  | Australian Government | |
|  | 2020 | 2019 |  | 2020 | 2019 |
|  | $m | $m |  | $m | $m |
| **Inventories held for sale** |  |  |  |  |  |
| Finished goods(a) | 729 | 686 |  | 835 | 810 |
| Raw materials and stores | 77 | 71 |  | 95 | 84 |
| Work in progress | 218 | 385 |  | 233 | 400 |
| **Total inventories held for sale** | **1,024** | **1,142** |  | **1,163** | **1,294** |
| Consumable stores and inventories held for distribution | 8,788 | 7,662 |  | 8,853 | 7,709 |
| **Total inventories** | **9,812** | **8,804** |  | **10,016** | **9,003** |

1. Australian Government finished goods include $242 million valued at net realisable value (2019: $243 million). GGS finished goods include $182 million valued at net realisable value (2019: $193 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 $3,264 million (2019: $2,353 million) expected to be consumed or sold within the next 12 months. GGS inventories include $3,059 million (2019: $2,154 million) expected to be consumed or sold within the next 12 months.

* 1. Other non-financial assets

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | General Government | |  | Australian Government | |
|  | 2020 | 2019 |  | 2020 | 2019 |
|  | $m | $m |  | $m | $m |
| Biological assets | 31 | 27 |  | 31 | 27 |
| Assets held for sale | 269 | 293 |  | 343 | 302 |
| Prepayments | 4,658 | 4,254 |  | 5,313 | 4,775 |
| Other | 37 | 35 |  | 37 | 35 |
| **Total other non-financial assets** | **4,995** | **4,609** |  | **5,724** | **5,139** |

* 1. Assets by function

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | General Government | |  | Australian Government | |
|  | 2020 | 2019 |  | 2020 | 2019 |
|  | $m | $m |  | $m | $m |
| General public services | 296,161 | 273,047 |  | 293,312 | 271,171 |
| Defence | 113,532 | 107,165 |  | 113,346 | 106,848 |
| Public order and safety | 6,368 | 3,382 |  | 6,368 | 3,382 |
| Education | 55,492 | 54,827 |  | 55,492 | 54,827 |
| Health | 5,770 | 2,467 |  | 5,788 | 2,461 |
| Social security and welfare | 11,154 | 9,696 |  | 10,874 | 9,411 |
| Housing and community amenities | 5,531 | 4,951 |  | 6,606 | 5,232 |
| Recreation and culture | 18,096 | 16,229 |  | 17,365 | 16,229 |
| Fuel and energy | 15,003 | 15,374 |  | 15,883 | 15,485 |
| Agriculture, forestry and fishing | 6,141 | 5,674 |  | 6,141 | 5,674 |
| Mining, manufacturing and construction | 1,070 | 653 |  | 2,697 | 2,638 |
| Transport and communication | 42,861 | 31,975 |  | 54,370 | 48,664 |
| Other economic affairs | 36,737 | 33,657 |  | 210,725 | 151,424 |
| Other purposes(a) | 93,705 | 45,416 |  | 39,673 | 43,941 |
| **Total assets** | **707,621** | **604,513** |  | **838,640** | **737,387** |

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 International Monetary Fund (IMF) and other multilateral organisations to meet Australia’s international financial obligations, bonds issued by public corporations and other loans.
* **Leases** (refer Note 6D) covers obligations under lease arrangements and includes liabilities for right-of-use assets.
* **Other interest bearing liabilities** (refer Note 6E) include Australia’s liability to the IMF as denominated in Special Drawing Rights (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, including derivative liabilities, designated at fair value through profit or loss in order to eliminate or reduce a measurement or recognition inconsistency or where a group of financial assets or liabilities is managed and evaluated on a fair value basis. | 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:

* **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 portion 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 | |
|  | 2020 | 2019 |  | 2020 | 2019 |
|  | $m | $m |  | $m | $m |
| Exchange settlement funds | - | - |  | 73,497 | 29,490 |
| Drawing accounts held with the RBA | - | - |  | 540 | 1,038 |
| State governments | - | - |  | 544 | 310 |
| Monies held in trust | 461 | 365 |  | 461 | 365 |
| Foreign governments | - | - |  | 3,389 | 2,328 |
| Other | 23 | 23 |  | 554 | 525 |
| **Total deposit liabilities** | **484** | **388** |  | **78,985** | **34,056** |

##### 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 | |
|  | 2020 | 2019 |  | 2020 | 2019 |
|  | $m | $m |  | $m | $m |
| **Exposure to liquidity risk on deposits held** |  |  |  |  |  |
| On demand | 459 | 363 |  | 78,857 | 33,311 |
| 1 year or less | - | - |  | 103 | 720 |
| 1 to 5 years | 25 | 25 |  | 25 | 25 |
| **Total** | **484** | **388** |  | **78,985** | **34,056** |

* 1. Government securities

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | General Government | |  | Australian Government | |
|  | 2020 | 2019 |  | 2020 | 2019 |
|  | $m | $m |  | $m | $m |
| Treasury bonds | 614,878 | 566,662 |  | 614,624 | 566,408 |
| Treasury notes | 58,738 | 2,993 |  | 58,738 | 2,993 |
| Treasury indexed bonds | 52,500 | 49,812 |  | 52,500 | 49,812 |
| Other(a) | 58,857 | 6,901 |  | 6 | 6 |
| **Total government securities** | **784,973** | **626,368** |  | **725,868** | **619,219** |

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 | |
|  | 2020 | 2019 |  | 2020 | 2019 |
|  | $m | $m |  | $m | $m |
| **Exposure to liquidity risk on government securities** |  |  |  |  |  |
| 1 year or less | 125,099 | 55,535 |  | 110,119 | 48,087 |
| 1 to 5 years | 249,726 | 230,511 |  | 228,366 | 229,618 |
| 5 to 10 years | 292,421 | 251,918 |  | 264,982 | 250,948 |
| 10 to 15 years | 98,547 | 78,549 |  | 98,547 | 78,549 |
| More than 15 years | 62,481 | 66,817 |  | 62,481 | 66,817 |
| **Total** | **828,274** | **683,330** |  | **764,495** | **674,019** |

The reported value of AGS is exposed to movements in market interest rates. Unrealised losses from the remeasurement of Government securities amounted to $9,193 million in 2019-20, increasing the AGS liability (2019: unrealised losses $43,550 million). Further detail on interest rate risk is provided in Note 9B.

* 1. Loans

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | General Government | |  | Australian Government | |
|  | 2020 | 2019 |  | 2020 | 2019 |
|  | $m | $m |  | $m | $m |
|  |  |  |  |  |  |
| Bills of exchange and promissory notes | 10,051 | 9,988 |  | 11,342 | 11,033 |
| Bonds (non-Treasury) | - | - |  | 3,128 | 2,691 |
| Loans | 881 | 392 |  | 4,490 | 2,516 |
| **Total loans** | **10,932** | **10,380** |  | **18,960** | **16,240** |
|  |  |  |  |  |  |
| **By maturity:** |  |  |  |  |  |
| No more than 12 months | 548 | 170 |  | 2,745 | 1,420 |
| More than 12 months | 10,384 | 10,210 |  | 16,215 | 14,820 |
| **Total by maturity** | **10,932** | **10,380** |  | **18,960** | **16,240** |
|  |  |  |  |  |  |
| **By category and valuation of financial liability:** |  |  |  |  |  |
| Amortised cost | 10,932 | 10,380 |  | 16,206 | 13,469 |
| Fair value: |  |  |  |  |  |
| Level 2 | - | - |  | 2,727 | 2,724 |
| Level 3 | - | - |  | 27 | 47 |
| **Total by category and valuation** | **10,932** | **10,380** |  | **18,960** | **16,240** |

##### 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 | |
|  | 2020 | 2019 |  | 2020 | 2019 |
|  | $m | $m |  | $m | $m |
| **Exposure to liquidity risk on loans** |  |  |  |  |  |
| On demand | - | 11 |  | 3 | 19 |
| 1 year or less | 633 | 277 |  | 4,610 | 2,057 |
| 1 to 5 years | 576 | 428 |  | 3,628 | 3,513 |
| More than 5 years | 10,233 | 10,248 |  | 12,621 | 11,232 |
| **Total** | **11,442** | **10,964** |  | **20,862** | **16,821** |

* 1. Leases

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | General Government | |  | Australian Government | |
|  | 2020 | 2019 |  | 2020 | 2019 |
|  | $m | $m |  | $m | $m |
| Finance leases(a) | - | 1,531 |  | - | 10,164 |
| Lease liabilities | 19,879 | - |  | 32,476 | - |
| **Total leases** | **19,879** | **1,531** |  | **32,476** | **10,164** |

1. Australian Government entities have applied AASB 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under AASB 117.

Total cash outflows for leases for the year ended 30 June 2020 for the Australian Government amounted to $4,945 million and $2,885 million for the General Government Sector.

##### Maturity analysis – contractual undiscounted cash flows

|  |  |  |  |
| --- | --- | --- | --- |
|  | General Government |  | Australian Government |
|  | 2020 |  | 2020 |
|  | $m |  | $m |
| Within 1 year | 2,353 |  | 3,975 |
| Between 1 to 5 years | 7,980 |  | 13,266 |
| More than 5 years | 11,163 |  | 32,630 |
| **Total leases** | **21,496** |  | **49,871** |

The Australian Government in its capacity as lessee has significant leasing arrangements for premises occupied by entities within the Defence, Social Services, Home Affairs and Foreign Affairs portfolios and for networks assets operated by nbn Co.

The above lease disclosures should be read in conjunction with the accompanying Notes 2B, 3C, 3D, 4B and 5D.

* 1. Other interest bearing liabilities

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | General Government | |  | Australian Government | |
|  | 2020 | 2019 |  | 2020 | 2019 |
|  | $m | $m |  | $m | $m |
| Swap principal payable | 1,120 | 650 |  | 2,365 | 1,922 |
| Amounts outstanding under repurchase agreements | - | - |  | 22 | 350 |
| Special reserve - IMF special drawing rights | 6,199 | 6,111 |  | 6,199 | 6,111 |
| Finance lease incentives(a) | - | 2 |  | - | 2 |
| Other | - | - |  | 1,463 | 1,084 |
| **Total other interest bearing liabilities** | **7,319** | **6,763** |  | **10,049** | **9,469** |
| **By category and valuation of financial liability:** |  |  |  |  |  |
| Amortised cost | 6,199 | 6,112 |  | 7,710 | 7,548 |
| Fair value: |  |  |  |  |  |
| Level 1 | 22 | 2 |  | 92 | 153 |
| Level 2 | 1,098 | 649 |  | 1,922 | 1,640 |
| Level 3 | - | - |  | 325 | 128 |
| **Total by category and valuation** | **7,319** | **6,763** |  | **10,049** | **9,469** |

1. The Australian Government has applied AASB 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under AASB 117.

##### Objective

The IMF SDR liability reflects the Government’s obligation to repay to the IMF the cumulative allocations of SDRs provided to Australia since joining the IMF.

The RBA enters into repurchase agreements in carrying out its operations to manage domestic liquidity and foreign reserves. Refer Note 9B for a discussion of swap agreements.

##### Recognition and measurement of other interest bearing liabilities

The IMF SDR allocation liability reflects the 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 | |
|  | 2020 | 2019 |  | 2020 | 2019 |
|  | $m | $m |  | $m | $m |
| **Exposure to liquidity risk on other debt** |  |  |  |  |  |
| 1 year or less | 1,120 | 652 |  | 3,084 | 2,801 |
| 1 to 5 years | - | - |  | 500 | 377 |
| More than 5 years | 6,199 | 6,111 |  | 6,547 | 6,373 |
| **Total** | **7,319** | **6,763** |  | **10,131** | **9,551** |

* 1. Employee benefits

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | General Government | |  | Australian Government | |
|  | 2020 | 2019 |  | 2020 | 2019 |
|  | $m | $m |  | $m | $m |
| **Total superannuation liability** | **430,105** | **415,286** |  | **431,077** | **416,046** |
| **Other employee liabilities** |  |  |  |  |  |
| Leave and other entitlements | 9,513 | 8,633 |  | 11,035 | 10,075 |
| Accrued salaries and wages | 444 | 281 |  | 668 | 435 |
| Workers compensation claims | 2,029 | 2,026 |  | 2,253 | 2,229 |
| Separations and redundancies | 110 | 135 |  | 186 | 228 |
| Military compensation | 19,815 | 14,651 |  | 19,815 | 14,651 |
| Other | 351 | 364 |  | 468 | 472 |
| **Total other employee liabilities** | **32,262** | **26,090** |  | **34,425** | **28,090** |
|  |  |  |  |  |  |
| **Total employee and superannuation liabilities** | **462,367** | **441,376** |  | **465,502** | **444,136** |
| **Employee benefits maturity schedule(a):** |  |  |  |  |  |
| No more than 12 months | 16,311 | 14,160 |  | 17,931 | 15,603 |
| More than 12 months | 446,056 | 427,216 |  | 447,571 | 428,533 |
| **Total employee benefits by maturity** | **462,367** | **441,376** |  | **465,502** | **444,136** |

1. Note 9C provides the average expected maturity for each of the Australian Government’s large defined benefit superannuation schemes.

##### Objective

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

##### Recognition and measurement of employee benefits

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

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.

##### 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 on or before 30 June 2020 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.

An independent actuary is engaged to value the provision. The provision is subject to a variety of assumptions, including external economic conditions, short-term and long-term continuance rates and administration costs. Small changes in these assumptions can have a material impact on the provision. To conservatively provide for the risks and uncertainties associated with the combination of these assumptions, the actuary applies a risk premium to the central estimate (13 per cent for premium claims liabilities and 16.5 per cent for pre-premium claims liabilities) which results in the 75 per cent probability of sufficiency. In 2020, a further risk premium adjustment of 1.5 per cent ($20 million) was applied to provide for the risks associated with COVID-19. The 2019-20 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 2020. A provision is also recognised under Note 6H for the hospital and other health care costs associated with treatment and was valued at $14,302 million at 30 June 2020 (2019: $8,649 million). The provisions are calculated by discounting future payments using a yield curve derived from the yields on Commonwealth bonds of various durations as at 30 June 2020. As ‘long tail’ provisions, the assumptions underpinning the valuation estimate contain inherent uncertainties. These include assumptions as to the impacts of health costs, technology and economic conditions on the growth in payments, short-term and long-term incapacity rates and a range of other factors as set out in the 2019-20 DVA annual report.

* 1. Other payables

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | General Government | |  | Australian Government | |
|  | 2020 | 2019 |  | 2020 | 2019 |
|  | $m | $m |  | $m | $m |
| **Supplier payables** |  |  |  |  |  |
| Trade creditors and accrued expenses | 6,055 | 6,028 |  | 9,334 | 9,334 |
| Operating lease rental payable | 10 | 523 |  | 10 | 523 |
| Personal benefits - indirect | 743 | 956 |  | 743 | 956 |
| Other creditors | 588 | 764 |  | 1,827 | 2,339 |
| **Total supplier payables** | **7,396** | **8,271** |  | **11,914** | **13,152** |
| **Total personal benefits payable - direct** | **4,670** | **2,994** |  | **4,670** | **2,994** |
| **Total subsidies payable** | **1,041** | **630** |  | **1,027** | **630** |
| **Grants payable** |  |  |  |  |  |
| State and territory governments | 134 | 163 |  | 134 | 163 |
| Private sector | 608 | 761 |  | 608 | 761 |
| Overseas | 1,866 | 1,566 |  | 1,866 | 1,566 |
| Other | 239 | 252 |  | 251 | 260 |
| **Total grants payable** | **2,847** | **2,742** |  | **2,859** | **2,750** |
| **Other payables** |  |  |  |  |  |
| Unearned income | 1,753 | 1,339 |  | 2,302 | 2,009 |
| Other | 1,708 | 2,165 |  | 1,725 | 2,245 |
| **Total other payables** | **3,461** | **3,504** |  | **4,027** | **4,254** |
|  |  |  |  |  |  |
| **Total payables** | **19,415** | **18,141** |  | **24,497** | **23,780** |
| **By category and valuation of financial liability:** |  |  |  |  |  |
| Amortised cost - statutory liability | 5,711 | 3,078 |  | 5,711 | 3,078 |
| Amortised cost | 10,229 | 12,299 |  | 14,756 | 17,320 |
| Fair value: |  |  |  |  |  |
| Level 3 | 1,722 | 1,425 |  | 1,728 | 1,431 |
| Unearned income | 1,753 | 1,339 |  | 2,302 | 1,951 |
| **Total by category and valuation** | **19,415** | **18,141** |  | **24,497** | **23,780** |

##### 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.

Settlement of suppliers depends on the contractual terms but is generally less than 20 days (2019: 30 days).

Contract liabilities in the form of payments received in advance are reported as unearned income. Income is recognised at either point in time as the performance obligation is met or over time as the customer consumes the benefit of the service being provided. This is dependent on the nature of the contractual arrangement.

##### 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 | |
|  | 2020 | 2019 |  | 2020 | 2019 |
|  | $m | $m |  | $m | $m |
| **Level 3 payables** |  |  |  |  |  |
| Opening balance at 1 July | 1,425 | 1,683 |  | 1,431 | 1,689 |
| Sales/repayments | (292) | (517) |  | (293) | (517) |
| Gains/(losses) recognised in the operating result | 589 | 259 |  | 590 | 259 |
| **Total fair value** | **1,722** | **1,425** |  | **1,728** | **1,431** |

##### 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 2020 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 | |
|  | 2020 | 2019 |  | 2020 | 2019 |
|  | $m | $m |  | $m | $m |
| **Exposure to other multilateral grants payable** |  |  |  |  |  |
| 1 year or less | 274 | 204 |  | 274 | 204 |
| 1 to 5 years | 1,012 | 992 |  | 1,012 | 992 |
| More than 5 years | 436 | 229 |  | 436 | 229 |
| **Total** | **1,722** | **1,425** |  | **1,722** | **1,425** |

* 1. Other provisions

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | General Government | |  | Australian Government | |
|  | 2020 | 2019 |  | 2020 | 2019 |
|  | $m | $m |  | $m | $m |
| **Australian currency on issue** | **-** | **-** |  | **90,102** | **80,024** |
| **Other provisions** |  |  |  |  |  |
| Grant provisions | 9,050 | 8,738 |  | 9,050 | 8,738 |
| Provision for outstanding benefits and claims | 27,980 | 21,588 |  | 29,691 | 23,114 |
| Provision for tax refunds | 3,105 | 3,775 |  | 3,105 | 3,775 |
| Provision for restoration, decommissioning and makegood | 3,827 | 3,374 |  | 4,266 | 3,758 |
| Subsidy provisions | 23,689 | 4,074 |  | 23,689 | 4,074 |
| Other | 1,880 | 1,658 |  | 2,303 | 2,008 |
| **Total other provisions** | **69,531** | **43,207** |  | **72,104** | **45,467** |
|  |  |  |  |  |  |
| **Total provisions** | **69,531** | **43,207** |  | **162,206** | **125,491** |

##### Objective

Australian banknote currency is issued by the RBA. 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 | |
|  |  | 2020 |  |  | 2020 |
|  |  | $m |  |  | $m |
|  |  |  |  |  |  |
| Balance of provisions at 1 July |  | 43,207 |  |  | 125,491 |
| Provisions made during the year |  | 39,569 |  |  | 50,256 |
| Provisions used during the year |  | (18,859) |  |  | (19,184) |
| Provisions remeasured, reversed or unwound |  |  |  |  |  |
| during the year |  | 5,614 |  |  | 5,643 |
| **Balance of provisions at 30 June** |  | **69,531** |  |  | **162,206** |

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

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | General Government | |  | Australian Government | |
|  | 2020 | 2019 |  | 2020 | 2019 |
|  | $m | $m |  | $m | $m |
|  |  |  |  |  |  |
| **Financial assets** |  |  |  |  |  |
| Financial assets | (7) | 163 |  | 1,495 | 1,009 |
| Administered investments | 4,822 | 1,090 |  | 25 | 75 |
| **Total financial assets** | **4,815** | **1,253** |  | **1,520** | **1,084** |
| **Non-financial assets** |  |  |  |  |  |
| Land | (292) | 210 |  | (278) | 309 |
| Buildings | (62) | 551 |  | (164) | 839 |
| Specialist military equipment | 958 | 1,179 |  | 958 | 1,179 |
| Other plant, equipment and infrastructure | 113 | 38 |  | 192 | 1,695 |
| Heritage and cultural assets | 211 | 33 |  | 211 | 33 |
| Provision for restoration, decommissioning and makegood | (30) | (117) |  | (30) | (117) |
| Intangibles | 855 | 5 |  | 855 | 5 |
| **Total non-financial assets** | **1,753** | **1,899** |  | **1,744** | **3,943** |
|  |  |  |  |  |  |
| **Total revaluation increases/(decreases) in other comprehensive income** | **6,568** | **3,152** |  | **3,264** | **5,027** |

1. Reconciliation of cash

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.

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

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | General Government | | | |  | | Australian Government | | | | |
|  |  | 2020 | 2019 | |  | | 2020 | | 2019 | |
|  |  | $m | $m | |  | | $m | | $m | |
| **Net operating balance** | | **(92,603)** | | **8,886** | |  | | **(99,650)** | | **3,242** | |
| *less* | Revenues not providing cash |  |  | |  | |  | |  | |
|  | Other non-cash revenues | 1,645 | 2,938 | |  | | 1,649 | | 3,102 | |
| **Total revenues not providing cash** | | **1,645** | | **2,938** | |  | | **1,649** | | **3,102** | |
|  |  |  |  | |  | |  | |  | |
| *plus* | Expenses not requiring cash |  |  | |  | |  | |  | |
|  | Increase in employee entitlements | 8,413 | 6,734 | |  | | 8,088 | | 6,378 | |
|  | Depreciation and amortisation expenses | 11,766 | 9,013 | |  | | 16,386 | | 12,668 | |
|  | Mutually agreed write-downs | 3,114 | 1,243 | |  | | 3,114 | | 1,243 | |
|  | Other non-cash expenses | 1,837 | 1,074 | |  | | 1,922 | | 1,918 | |
| **Total expenses not requiring cash** | | **25,130** | | **18,064** | |  | | **29,510** | | **22,207** | |
|  |  |  |  | |  | |  | |  | |
| *plus* | Cash provided by working capital items |  |  | |  | |  | |  | |
|  | (Increase)/decrease in receivables | (24,194) | (10,459) | |  | | (23,333) | | (10,388) | |
|  | (Increase)/decrease in inventories | (1,169) | (637) | |  | | (1,182) | | (655) | |
|  | (Increase)/decrease in other financial assets | 1,360 | 694 | |  | | 1,623 | | 1,342 | |
|  | (Increase)/decrease in other non-financial assets | (1,215) | (442) | |  | | (1,103) | | (596) | |
|  | Increase/(decrease) in benefits, subsidies and grants liabilities | 23,587 | 247 | |  | | 23,578 | | 255 | |
|  | Increase/(decrease) in supplier payables | (796) | 1,561 | |  | | (875) | | 1,938 | |
|  | Increase/(decrease) in other provisions and payables | 4,691 | 6,448 | |  | | 4,545 | | 7,007 | |
| **Total cash provided/(used by) working** | |  | |  | |  | |  | |  | |
| **capital items** | | **2,264** | | **(2,588)** | |  | | **3,253** | | **(1,097)** | |
| ***equals* Net cash from/(used by) operating** | |  | |  | |  | |  | |  | |
| **activities** | | **(66,854)** | | **21,424** | |  | | **(68,536)** | | **21,250** | |

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.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Australian Government** | Opening balance at |  | Non-cash movements | | Closing balance at |
|  | 1 July 2018 | Cash flows | Acquisition | Other movements | 30 June 2019 |
| Australian currency on issue | 75,565 | 4,459 | - | - | 80,024 |
| Government securities | 567,661 | 8,691 | - | 42,867 | 619,219 |
| Loans | 4,037 | 742 | - | 164 | 4,943 |
| Other borrowings | 8,817 | (445) | 1,107 | 685 | 10,164 |
| Deposits held | 33,841 | (327) | - | 542 | 34,056 |
| Other | (7) | (6) | - | 16 | 3 |
| **Total** | **689,914** | **13,114** | **1,107** | **44,274** | **748,409** |
|  |  |  |  |  |  |
| **Australian Government** | **Opening balance at** |  | **Non-cash movements** | | **Closing balance at** |
|  | **1 July 2019** | **Cash flows** | **Acquisition** | **Other movements** | **30 June 2020** |
| Australian currency on issue | 80,024 | 10,078 | - | - | 90,102 |
| Government securities | 619,219 | 96,280 | - | 10,369 | 725,868 |
| Loans | 4,943 | 2,928 | - | (230) | 7,641 |
| Other borrowings | 10,164 | (2,525) | - | 24,837 | 32,476 |
| Deposits held | 34,056 | 45,973 | - | (1,044) | 78,985 |
| Other | 3 | 35 | - | (38) | - |
| **Total** | **748,409** | **152,769** | **-** | **33,894** | **935,072** |

##### Reconciliation of changes in liabilities arising from financing activities (continued)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **General Government Sector** | Opening balance at |  | Non-cash movements | | Closing balance at |
| 1 July 2018 | Cash flows | Acquisition | Other movements | 30 June 2019 |
| Australian currency on issue | - | - | - | - | - |
| Government securities | 575,450 | 8,052 | - | 42,866 | 626,368 |
| Loans | 383 | (465) | - | 461 | 379 |
| Other borrowings | 1,535 | (59) | 6 | 50 | 1,532 |
| Deposits held | 381 | 5 | - | 2 | 388 |
| Other | - | - | - | 3 | 3 |
| **Total** | **577,749** | **7,533** | **6** | **43,382** | **628,670** |
|  |  |  |  |  |  |
| **General Government Sector** | **Opening balance at** |  | **Non-cash movements** | | **Closing balance at** |
|  | **1 July 2019** | **Cash flows** | **Acquisition** | **Other movements** | **30 June 2020** |
| Australian currency on issue | - | - | - | - | - |
| Government securities | 626,368 | 148,235 | - | 10,370 | 784,973 |
| Loans | 379 | 508 | - | (12) | 875 |
| Other borrowings | 1,532 | (2,360) | - | 20,707 | 19,879 |
| Deposits held | 388 | 97 | - | (1) | 484 |
| Other | 3 | 2 | - | (5) | - |
| **Total** | **628,670** | **146,482** | **-** | **31,059** | **806,211** |

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

Consistent with the amounts recognised in the financial statements, the disclosures are based on the policies, events and arrangements up to the reporting date and do not include policy decisions announced in the 2019‑20 Budget 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 | |
|  | 2020 | 2019 |  | 2020 | 2019 |
|  | $m | $m |  | $m | $m |
|  |  |  |  |  |  |
| Opening balance as at 1 July | 42,162 | 39,021 |  | 43,061 | 40,261 |
| Increases | 2,777 | 2,628 |  | 3,043 | 2,771 |
| Remeasurement | 167 | 556 |  | 198 | 285 |
| Liabilities crystallised | (18) | - |  | (18) | - |
| Expired | (13) | (43) |  | (493) | (256) |
| **As at 30 June** | **45,075** | **42,162** |  | **45,791** | **43,061** |

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.*** The Australian Government has negotiated limited liability contracts with providers of garrison and welfare services at regional processing centres; and immigration detention and related services in Australia. | Home Affairs |
| ***Small and Medium Enterprise Guarantee Scheme***. The Australian Government provides guarantees to eligible lenders to enhance lenders’ willingness and ability to provide credit, to support small and medium enterprises (SMEs) to access additional funding to continue operating through the COVID-19 outbreak. Eligible lenders are offering SMEs, guaranteed loans up to $250,000. The SME Guarantee Scheme is capped at $20 billion. | Treasury |
| ***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****.* The scheme is 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 2019, deposits eligible for coverage under the Financial Claims Scheme were approximately $950 billion (31 December 2018: $920 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 are contained in the 2019-20 annual report for the Department of Infrastructure, Transport, Regional Development and Communications. 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 | |
|  | 2020 | 2019 |  | 2020 | 2019 |
|  | $m | $m |  | $m | $m |
|  |  |  |  |  |  |
| Opening balance as at 1 July | 19,772 | 18,770 |  | 19,844 | 18,839 |
| Remeasurement | 428 | 1,002 |  | 429 | 1,005 |
| **As at 30 June** | **20,200** | **19,772** |  | **20,273** | **19,844** |

#### 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 | |
|  | 2020 | 2019 |  | 2020 | 2019 |
|  | $m | $m |  | $m | $m |
|  |  |  |  |  |  |
| Opening balance as at 1 July | 133 | 122 |  | 136 | 126 |
| Increases | 150 | 78 |  | 152 | 79 |
| Remeasurement | 146 | - |  | 146 | (1) |
| Liabilities crystallised | (216) | (2) |  | (216) | (3) |
| Expired | (7) | (65) |  | (7) | (65) |
| **As at 30 June** | **206** | **133** |  | **211** | **136** |

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.

On 2 June 2020, proceedings 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 found in favour of the applicant and the Australian Government has decided not to appeal the decision. The quantum of any damages and the ongoing claims of class members are still matters before the Court.

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 clean-up of sites following incidents or other events. These include potential incidents arising from liquid fuel emergencies, ship sourced marine pollution and carbon dioxide leakage from the Gorgon liquefied natural gas and carbon dioxide storage project.

#### Other contingencies

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

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

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | General Government | |  | Australian Government | |
|  | 2020 | 2019 |  | 2020 | 2019 |
|  | $m | $m |  | $m | $m |
|  |  |  |  |  |  |
| Opening balance as at 1 July | 6,550 | 6,448 |  | 224,538 | 229,759 |
| Increases | 1,291 | 824 |  | 1,295 | 824 |
| Remeasurement | 41 | 274 |  | (16,765) | (5,049) |
| Liabilities crystallised | - | (32) |  | - | (32) |
| Expired | (1,622) | (964) |  | (1,622) | (964) |
| **As at 30 June** | **6,260** | **6,550** |  | **207,446** | **224,538** |

In addition to the above, a select number of entities have identified unquantifiable contingencies in relation to potential underpayments of employee on‑costs.

#### Contingent assets

The following table reconciles the movement in quantifiable contingent assets.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | General Government | |  | Australian Government | |
|  | 2020 | 2019 |  | 2020 | 2019 |
|  | $m | $m |  | $m | $m |
|  |  |  |  |  |  |
| Opening balance as at 1 July | 172 | 126 |  | 219 | 150 |
| Increases | 201 | 96 |  | 211 | 132 |
| Remeasurement | 166 | 59 |  | 168 | 57 |
| Assets crystallised | (131) | (82) |  | (131) | (83) |
| Expired | (7) | (27) |  | (40) | (37) |
| **As at 30 June** | **401** | **172** |  | **427** | **219** |

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 - Disclosures*.

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 | |
|  | 2020 | 2019 |  | 2020 | 2019 |
|  | $m | $m |  | $m | $m |
|  |  |  |  |  |  |
| **FINANCIAL ASSETS** |  |  |  |  |  |
| **Amortised cost** |  |  |  |  |  |
| Interest income | 1,544 | 1,616 |  | 791 | 827 |
| Net foreign exchange gain/(loss) | 7 | 15 |  | 2 | 3 |
| Write-down and impairment | (2,202) | (304) |  | (2,273) | (336) |
| **Net gain/(loss)** | **(651)** | **1,327** |  | **(1,480)** | **494** |
|  |  |  |  |  |  |
| **Fair value through other comprehensive income** |  |  |  |  |  |
| Interest income | 10 | 11 |  | 10 | 11 |
| Dividend income | 3,366 | 1,871 |  | 493 | (22) |
| Net gain/(loss) on disposal | 2 | - |  | 2 |  |
| Net foreign exchange gain/(loss) | 175 | 622 |  | 175 | 622 |
| Other gains/(losses) | 17 | - |  | 17 | - |
| Fair value movements in equity | 4,815 | 1,253 |  | 1,520 | 1,084 |
| **Net gain/(loss)** | **8,385** | **3,757** |  | **2,217** | **1,695** |
|  |  |  |  |  |  |
| **Fair value through profit and loss** |  |  |  |  |  |
| Interest income | 6,370 | 5,010 |  | 8,436 | 7,472 |
| Net gain/(loss) on disposal | 1,931 | 5,301 |  | 1,711 | 5,448 |
| Dividend income | 5,000 | 7,751 |  | 5,065 | 7,819 |
| Net foreign exchange gain/(loss) | (352) | (840) |  | 960 | 2,342 |
| Write-down and impairment | - | (14) |  | - | (13) |
| Interest expenses | (83) | (191) |  | (85) | (189) |
| Other gains/(losses) | (8,824) | 11,528 |  | (9,026) | 11,625 |
| **Net gain/(loss)** | **4,042** | **28,545** |  | **7,061** | **34,504** |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | General Government | |  | Australian Government | |
|  | 2020 | 2019 |  | 2020 | 2019 |
|  | $m | $m |  | $m | $m |
|  |  |  |  |  |  |
| **FINANCIAL LIABILITIES** |  |  |  |  |  |
| **Fair value through profit and loss** |  |  |  |  |  |
| Interest expense | (22,287) | (20,787) |  | (22,162) | (20,359) |
| Net foreign exchange gain/(loss) | - | (3) |  | - | (3) |
| Other gains/(losses) | (9,197) | (43,734) |  | (9,198) | (43,733) |
| **Net gain/(loss)** | **(31,484)** | **(64,524)** |  | **(31,360)** | **(64,095)** |
|  |  |  |  |  |  |
| **Other financial liabilities** |  |  |  |  |  |
| Interest expense | (719) | (618) |  | (2,289) | (2,529) |
| Net foreign exchange gain/(loss) | (779) | (696) |  | (779) | (696) |
| **Net gain/(loss)** | **(1,498)** | **(1,314)** |  | **(3,068)** | **(3,225)** |

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;
* ***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*;
* ***Medical Research Future Fund (MRFF)*** —a financial asset fund established to provide an endowment that will support medical research and innovation into the future;
* ***Aboriginal and Torres Strait Islander Land and Sea Future Fund (ATSILSFF)*** — to support the Government making annual and discretionary payments to the Indigenous Land and Sea Corporation;
* ***Future Drought Fund (FDF)*** — established on 1 September 2019 by the *Future Drought Fund Act 2019*. The FDF enhances the Commonwealth’s ability to make arrangements with, and grants to, persons and bodies in relation to drought resilience, preparedness and response. On establishment, the FDF was credited with the balance of the previous Building Australia Fund, which ceased operation on 1 September 2019; and
* ***Emergency Response Fund (ERF)*** — established on the commencement of the *Emergency Response Fund Act 2019* on 12 December 2019. On establishment, the ERF was credited with the uncommitted balance of the Education Investment Fund, which has now been closed. The ERF allows the Government to draw up to $200 million in any given year, beyond what is already available to fund emergency response and natural disaster recovery and preparedness, where it determines the existing recovery and resilience-building programs are insufficient to provide an appropriate response to natural disasters.

All the Funds operate under the same governance arrangements with the Future Fund Board of Guardians (the Board) 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.

The Government specifies a benchmark return for each Fund and requires the Board to take an acceptable but not excessive level of risk. The Board sets and reviews asset allocations designed to achieve this outcome. It encapsulates a level of risk that is expected to deliver the key return objectives while limiting the downside risk.

A range of factors are considered in constructing the investment portfolios to ensure that there is adequate diversity so that a negative outcome in any one area does not unduly impact the overall return. The factors considered include the outlook for: global economic growth; inflation; global real interest rates; changes in risk premia attached to various asset classes; movements in the value of currencies held; and changes in liquidity and credit conditions.

The Board has overall responsibility for risk management, including that related to environmental, social and governance (ESG) factors. The Board considers these risks from a risk-adjusted returns perspective. As with social and governance factors, the Board integrates material transition and physical climate‑related risks and opportunities into Fund investment processes. This includes understanding the potential risks to company earnings due to climate risk and to what extent markets are pricing-in carbon risk.

The Board’s ESG Policy provides a framework which helps to determine what entities and sectors are excluded from the investment fund portfolio for non‑financial reasons.

As at 30 June 2020, the Investment Funds held $205,504 million in investment assets (2019: $198,884 million). The allocation of assets by Investment Fund and percentage share by investment category is shown below as at 30 June 2020.

|  |  |
| --- | --- |
| **Asset allocation by Fund ($m)** | **Allocation by investment category** |

The Future Fund and the MRFF have long-term investment mandates for which the Future Fund Board constructs a highly diversified portfolio. The remaining funds have shorter-term investment horizons.

The different investment categories provide diversification and exposure to various market risks, consistent with the Future Fund Board’s mandate to target appropriate levels of risk to achieve the benchmark returns for each Fund.

The assets of the Investment Funds encompass the following broad investment categories and exposures:

* Equity investments in private funds and corporations (refer Note 5C), which include both domestic and international listed equities and listed managed investment schemes. Equity investments are held both long-term and short‑term and provide exposure to price and foreign exchange risk (for international equities).
* Collective Investment Vehicles (CIVs) (refer Note 5B) enable the Future Fund and MRFF to pool funds with multiple investors in investment holding entities in order to manage investment risks through portfolio diversification and provide investment exposure to larger assets. CIVs comprise 37 per cent of assets held by the Investment Funds at 30 June 2020 and include a range of underlying strategies including debt, private equity, hedge funds, property, infrastructure and timberland assets, both in Australia and overseas. The diversity of underlying investment strategies in CIVs give rise to credit risk, interest rate risk, price risk and foreign exchange risk, which are summarised in the CFS with further detail provided in the Future Fund’s Annual Report.
* Interest bearing securities (refer Note 5B) include international government securities, corporate securities, mortgage and asset-backed securities and interest bearing securities issued by domestic banks. Interest bearing securities are utilised by all of the Investment Funds for return generation and to manage risk, including in the short-term. The portfolio of interest bearing securities provide exposure to credit risk, interest rate risk and foreign exchange risk.
* Other investments (refer Note 5B) include derivatives and cash deposits held for investment purposes, which are not available for Australian Government operating activities.

This Note provides an overview of the interest rate, foreign exchange and equity risks associated with these investments, with credit risk discussed in Note 5B.

The 2019-20 Annual Report for the Board provides a detailed discussion of the underlying investment strategies, exposures as at the reporting date and the 2019‑20 investment performance for each of the Investment Funds.

The investment portfolio includes debt, equity and certain transactions denominated in foreign currencies. These give rise to interest rate risk, price risk and foreign exchange risk.

##### 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.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | 2020 | | | | |
|  | Fixed | Floating |  | Non- |  |
|  | interest | interest |  | interest | Total |
|  | rate | rate |  | bearing |  |
|  | $m | $m |  | $m | $m |
|  |  |  |  |  |  |
| **Financial assets** |  |  |  |  |  |
| Advances paid and receivables (non-statutory) | 8,361 | 56,189 |  | 12,857 | 77,407 |
| *Investments, loans and placements:* |  |  |  |  |  |
| Deposits | 22,434 | 771 |  | - | 23,205 |
| Government securities | 187,944 | - |  | - | 187,944 |
| Residential mortgage-backed securities | 1,815 | - |  | - | 1,815 |
| Collective investment vehicles | - | - |  | 76,334 | 76,334 |
| Other interest bearing securities | 49,946 | 7,698 |  | 163 | 57,807 |
| **Total financial assets** | **270,500** | **64,658** |  | **89,354** | **424,512** |
|  |  |  |  |  |  |
| **Financial liabilities** |  |  |  |  |  |
| Deposits held | 78,954 | 21 |  | 10 | 78,985 |
| Government securities | 725,868 | - |  | - | 725,868 |
| Loans | 4,566 | 4,366 |  | 10,028 | 18,960 |
| **Total financial liabilities** | **809,388** | **4,387** |  | **10,038** | **823,813** |
| **Net exposure to interest rate risk** | **(538,888)** | **60,271** |  | **79,316** | **(399,301)** |

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

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | 2019 | | | | |
|  | Fixed | Floating |  | Non- |  |
|  | interest | interest |  | interest | Total |
|  | rate | rate |  | bearing |  |
|  | $m | $m |  | $m | $m |
|  |  |  |  |  |  |
| **Financial assets** |  |  |  |  |  |
| Advances paid and receivables (non-statutory) | 9,719 | 54,064 |  | 8,230 | 72,013 |
| *Investments, loans and placements:* |  |  |  |  |  |
| Deposits | 32,593 | 968 |  | - | 33,561 |
| Government securities | 130,776 | - |  | - | 130,776 |
| Collective investment vehicles | - | - |  | 76,567 | 76,567 |
| Other interest bearing securities | 40,405 | 8,905 |  | 407 | 49,717 |
| **Total financial assets** | **213,493** | **63,937** |  | **85,204** | **362,634** |
|  |  |  |  |  |  |
| **Financial liabilities** |  |  |  |  |  |
| Deposits held | 34,036 | 20 |  | - | 34,056 |
| Government securities | 619,219 | - |  | - | 619,219 |
| Loans | 3,344 | 2,645 |  | 10,251 | 16,240 |
| **Total financial liabilities** | **656,599** | **2,665** |  | **10,251** | **669,515** |
| **Net exposure to interest rate risk** | **(443,106)** | **61,272** |  | **74,953** | **(306,881)** |

##### 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 | | | | |
| **Individually material exposures** | 2020 | |  | 2019 | |
|  | + 9 basis | - 9 basis |  | + 20 basis | - 20 basis |
|  | points | points |  | points | points |
|  | $m | $m |  | $m | $m |
|  |  |  |  |  |  |
| **Financial assets** |  |  |  |  |  |
| Investment funds | (136) | 138 |  | (371) | 379 |
| RBA Government securities | (311) | 311 |  | (83) | 83 |
|  |  |  |  |  |  |
| **Financial liabilities** |  |  |  |  |  |
| Government securities | 4,465 | (4,465) |  | 8,449 | (8,647) |

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 2020, the notional value of open futures contracts and swaps totalled $16,907 million (2019: $18,799 million).

The other investment funds had open positions in exchange traded interest rate futures contracts and interest rate swap agreements at the reporting date. At 30 June 2020, the notional value of open futures contracts and swaps totalled negative $308 million (2019: negative $2,623 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 international financial institutions (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 | | |
|  |  |  |  |  | 2020 |  | 2019 |
|  |  |  |  |  | $m |  | $m |
|  |  |  |  |  |  |  |  |
| **Financial assets** |  |  |  |  |  |  |  |
| Advances paid and receivables |  |  |  |  | 2,504 |  | 2,227 |
| *Investments, loans and placements:* |  |  |  |  |  |  |  |
| Deposits |  |  |  |  | 16,414 |  | 29,952 |
| Government securities |  |  |  |  | 35,355 |  | 40,004 |
| International Monetary Fund quota |  |  |  |  | 19,565 |  | 19,198 |
| Collective investment vehicles |  |  |  |  | 50,799 |  | 50,637 |
| Other interest bearing securities |  |  |  |  | 26,058 |  | 22,570 |
| Equity investments |  |  |  |  | 47,006 |  | 51,883 |
| **Total financial assets** |  |  |  |  | **197,701** |  | **216,471** |
|  |  |  |  |  |  |  |  |
| **Financial liabilities** |  |  |  |  |  |  |  |
| Loans |  |  |  |  | 11,374 |  | 11,246 |
| Other interest bearing liabilities |  |  |  |  | 6,564 |  | 6,798 |
| **Total financial liabilities** |  |  |  |  | **17,938** |  | **18,044** |
| **Net foreign exchange holdings** |  |  |  |  | **179,763** |  | **198,427** |

The foreign exchange holdings of the RBA, the Investment Funds and EFIC are in multiple currencies, but predominantly US dollars (USD), while the financial assets and liabilities held with IFIs and development banks are denominated in 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 +/- 8.4 per cent (2019: 8.7 per cent) applied to the value of the Australian dollar exchange rate as at 30 June 2020.

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | Impact on operating result and net worth | | | | | | |
| **Individually material exposures** | 2020 | | |  | 2019 | | |
|  | 8.4 |  | -8.4 |  | +8.7 |  | -8.7 |
|  | per cent |  | per cent |  | per cent |  | per cent |
|  | $m |  | $m |  | $m |  | $m |
|  |  |  |  |  |  |  |  |
| **Foreign financial assets** |  |  |  |  |  |  |  |
| Investment Funds | (8,284) |  | 8,209 |  | (8,365) |  | 8,503 |
| RBA Government securities | (4,261) |  | 5,207 |  | (4,400) |  | 5,377 |
| IMF and IFI Investments | (1,447) |  | 1,712 |  | (1,421) |  | 1,691 |
|  |  |  |  |  |  |  |  |
| **Foreign financial liabilities** |  |  |  |  |  |  |  |
| IMF SDR and loans liabilities | 486 |  | (575) |  | 494 |  | (588) |

##### 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.

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  | 2020 |  | 2019 |
|  |  |  |  |  | $m |  | $m |
|  |  |  |  |  |  |  |  |
| **Forward exchange contracts and foreign currency swaps** | | | |  |  |  |  |
| Sell foreign currency |  |  |  |  | (103,791) |  | (130,921) |
| Purchase foreign currency |  |  |  |  | 61,599 |  | 59,824 |
| **Net forward exchange contracts and foreign currency swaps** | | | |  | **(42,192)** |  | **(71,097)** |

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.

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  | 2020 |  | 2019 |
|  |  |  |  |  | $m |  | $m |
|  |  |  |  |  |  |  |  |
| **Equity price risk exposure** |  |  |  |  |  |  |  |
| Domestic equities and managed investment schemes | | | |  | 12,121 |  | 12,818 |
| International equities and managed investment schemes | | | |  | 40,673 |  | 45,799 |
| **Total equity price risk exposure** |  |  |  |  | **52,794** |  | **58,617** |

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 | | | | | | |
| **Individually material exposures** | 2020 | | |  | 2019 | | |
|  | + 20 & 15 |  | - 20 & 15 |  | + 20 & 15 |  | - 20 & 15 |
|  | per cent |  | per cent |  | per cent |  | per cent |
|  | $m |  | $m |  | $m |  | $m |
|  |  |  |  |  |  |  |  |
| Domestic equities | 4,071 |  | (4,071) |  | 3,705 |  | (3,705) |
| International equities | 16,302 |  | (16,295) |  | 15,444 |  | (15,173) |
| **Total** | **20,373** |  | **(20,366)** |  | **19,149** |  | **(18,878)** |

##### 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.

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | 2020 | | |  | 2019 | | |
|  | Notional |  | Fair |  | Notional |  | Fair |
|  | value |  | value |  | value |  | value |
|  | $m |  | $m |  | $m |  | $m |
| Buy domestic equity futures contract | 458 |  | 2 |  | 116 |  | 1 |
| Sell domestic equity futures contract | (369) |  | (2) |  | (138) |  | (1) |
| Buy international equity futures contract | 3,677 |  | 5 |  | 3,775 |  | 78 |
| Sell international equity futures contract | - |  | - |  | (115) |  | (1) |
| Buy equity index swap agreements | 4,892 |  | 462 |  | - |  | - |
| International equity index put options | (676) |  | 2 |  | (3,063) |  | 41 |
| International equity index call options | - |  | - |  | 2,712 |  | 85 |
| International exchange traded warrants | 10 |  | 5 |  | 10 |  | 6 |
| **Total** | **7,992** |  | **474** |  | **3,297** |  | **209** |

* 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 of material schemes is determined by reference to the long-term government bond rate. The long‑term government bond rate decreased from between 1.3 and 1.9 per cent at 30 June 2019 to between 1.0 and 1.7 per cent at 30 June 2020. 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 who entered service prior to 1 July 2016 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. Military personnel who entered on or after 1 July 2016 are part of ADF Super, an accumulation scheme. 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) | 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.

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

##### Composition

As at 30 June 2020, the composition of the Australian Government’s net liability for the defined benefit schemes (as reported in Note 6F) was as follows:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Scheme** | General Government | |  | Australian Government | |
|  | 2020 | 2019 |  | 2020 | 2019 |
|  | $m | $m |  | $m | $m |
| Commonwealth Superannuation Scheme (CSS) | 94,766 | 95,503 |  | 94,766 | 95,503 |
| Public Sector Superannuation Scheme (PSS) | 143,944 | 134,288 |  | 143,944 | 134,288 |
| Defence Force Retirement and Death Benefits Scheme (DFRDB) | 52,019 | 55,537 |  | 52,019 | 55,537 |
| Military Superannuation Benefits Scheme (MSBS) | 134,511 | 125,745 |  | 134,511 | 125,745 |
| Other schemes | 4,759 | 4,083 |  | 5,720 | 4,829 |
| Other superannuation liabilities | 106 | 130 |  | 117 | 144 |
| **Total superannuation provision** | **430,105** | **415,286** |  | **431,077** | **416,046** |

The defined benefit plan asset of $235 million reported in Note 5B (2019: $566 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 individually disclosed 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. Employer contributions also include the three per cent productivity contributions. |

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, and in the case of the non-indexed pension, by applying age-based factors.  Where a member has preserved their benefit in the scheme, when the benefit becomes payable, the employer financed indexed pension is calculated by applying age-based factors to the amount of two and a half times the member's accumulated basic member contributions and interest. |
| PSS | The types of benefits payable are a lifetime indexed pension (indexed in January and July) in line with changes in the CPI and a lump sum payment. On retirement a lump sum benefit is payable which is calculated based on the member’s length of contributory membership, their rate of member contributions and final average salary (average of a member’s superannuation salary on their last three birthdays).  Where a member preserves their benefit in the scheme, generally the member’s lump sum benefit at that time is crystallised with the funded component of the benefit accumulating with interest and the unfunded component accumulating with changes in the CPI, until the benefit becomes payable.  Generally members can convert 50% or more of their lump sum to a lifetime indexed pension. The indexed pension is calculated by applying age-based factors to the amount of the lump sum to be converted to a pension. |
| 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, some of which can be commuted to a lump sum. Members are entitled to a productivity benefit based on three per cent of pay increased with interest, which is paid as a lump sum in addition to the defined benefits. |

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 2019 was projected forward to 30 June 2020 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 2020.

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 2020 was estimated using the pre-30 June 2020 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 2019-20

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | 2020 | | | | |
| Scheme | CSS | PSS | DFRDB | MSBS | Other |
|  | $m | $m | $m | $m | $m |
| **Reconciliation of the present value of the defined benefit obligation** | |  |  |  |  |
| Opening present value | (97,771) | (153,838) | (55,537) | (136,008) | (14,603) |
| Addition of acquired schemes | - | - | - | - | (22) |
| Adjusted opening present value | (97,771) | (153,838) | (55,537) | (136,008) | (14,625) |
| Current service cost | (114) | (3,892) | (124) | (5,444) | (1,064) |
| Productivity contributions | (9) | (157) | - | - | - |
| Interest cost | (1,625) | (2,900) | (1,038) | (2,626) | (255) |
| Contributions by scheme participants | (30) | (537) | - | (280) | 110 |
| *Actuarial gains/(losses) arising from:* |  |  |  |  |  |
| Changes in demographic assumptions | - | - | - | - | 1 |
| Changes in financial assumptions | (1,585) | (3,333) | 2,135 | (1,948) | - |
| Liability experience | 352 | (604) | 881 | 239 | (19) |
| Other assumptions | - | - | - | - | (33) |
| Benefits paid | 4,135 | 2,388 | 1,664 | 1,283 | 474 |
| Taxes, premiums and expenses paid | 1 | 23 | - | - | - |
| **Present value at 30 June** | **(96,646)** | **(162,850)** | **(52,019)** | **(144,784)** | **(15,411)** |
| **Reconciliation of the fair value of scheme assets** |  |  |  |  |  |
| Opening fair value | 2,268 | 19,550 | - | 10,263 | 10,328 |
| Addition of acquired schemes | - | - | - | - | 15 |
| Adjusted opening fair value | 2,268 | 19,550 | - | 10,263 | 10,343 |
| Changes in fair value of scheme assets: |  |  |  |  |  |
| Plan asset acquired |  |  |  |  |  |
| Interest income | 35 | 366 | - | 196 | 199 |
| Adjust for actual return on scheme assets | (41) | (461) | - | (289) | (269) |
| Actuarial gains/(losses) | - | - | - | - | - |
| Net appropriation from CRF | 3,716 | 1,170 | 1,664 | 1,106 | 114 |
| Employer contributions | 9 | 157 | - | - | 118 |
| Participant contributions | 30 | 537 | - | 280 | (111) |
| Foreign currency exchange rate changes | - | - | - | - | (1) |
| Benefits paid | (4,135) | (2,388) | (1,664) | (1,283) | (482) |
| Taxes, premiums and expenses paid | (1) | (23) | - | - | (10) |
| **Fair value at 30 June** | **1,881** | **18,908** | **-** | **10,273** | **9,901** |
| **Composition of scheme assets** |  |  |  |  |  |
| Australian equity | 22.0% | 23.0% | - | 23.0% | 8.3% |
| International equity | 25.0% | 26.0% | - | 23.0% | 18.7% |
| Fixed income | - | - | - | - | 1.1% |
| Property and infrastructure | 11.0% | 12.0% | - | 12.0% | 11.4% |
| Private equity | 6.0% | 7.0% | - | 7.0% | 6.4% |
| Hedge funds | - | - | - | - | 0.7% |
| Credit | - | - | - | - | 6.0% |
| Debt instruments | 7.0% | 7.0% | - | - | 28.5% |
| Diversified growth funds | - | - | - | - | 0.3% |
| Other | 10.0% | 10.0% | - | 14.0% | 13.0% |
| Cash | 19.0% | 15.0% | - | 21.0% | 5.6% |
| **Total** | **100%** | **100%** | **-** | **100%** | **100%** |
| **Principal actuarial assumptions at the reporting date** |  |  |  |  |  |
| Discount rate (active members) | 1.4% | 1.7% | 1.7% | 1.7% | 1.7-3.5% |
| Discount rate (pensioners) | 1.4% | 1.7% | 1.7% | 1.7% | 1.7% |
| Expected rate of return on plan assets | - | - | - | 1.7% | - |
| Expected salary increase rate(a) | 2.0-3.5% | 2.0-3.5% | 2.0-4.0% | 2.0-4.0% | 2.0-4.0% |
| Expected pension increase rate | 1.7% | 1.7% | 2.5-4.0% | 2.5% | 2.0-4.0% |

1. CSS and PSS general salary increases of 2.0% to June 2024 and 3.5% thereafter. DFRDB and MSBS assume general salary increases of 2.0% to June 2024 and 4.0% thereafter.

##### Reconciliation of the present value of the defined benefit obligation for 2018-19

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | 2019 | | | | |
| Scheme | CSS | PSS | DFRDB | MSBS | Other |
|  | $m | $m | $m | $m | $m |
| **Reconciliation of the present value of the defined benefit obligation** | |  |  |  |  |
| Opening present value | (85,512) | (116,391) | (46,714) | (92,659) | (12,601) |
| Addition of acquired schemes | - | - | - | - | (22) |
| Adjusted opening present value | (85,512) | (116,391) | (46,714) | (92,659) | (12,623) |
| Current service cost | (115) | (2,842) | (114) | (3,881) | (660) |
| Productivity contributions | (11) | (167) | - | - | - |
| Interest cost | (2,418) | (3,575) | (1,377) | (2,921) | (305) |
| Contributions by scheme participants | (37) | (524) | - | (273) | (99) |
| *Actuarial gains/(losses) arising from:* |  |  |  |  |  |
| Changes in financial assumptions | (13,863) | (31,875) | (9,738) | (37,143) | (1,521) |
| Liability experience | 57 | (726) | 736 | (134) | 46 |
| Other assumptions | - | - | - | - | 35 |
| Benefits paid | 4,126 | 2,237 | 1,670 | 1,003 | 528 |
| Taxes, premiums and expenses paid | 2 | 25 | - | - | - |
| Exchange rate gains/(losses) | - | - | - | - | (4) |
| **Present value at 30 June** | **(97,771)** | **(153,838)** | **(55,537)** | **(136,008)** | **(14,603)** |
| **Reconciliation of the fair value of scheme assets** |  |  |  |  |  |
| Opening fair value | 2,618 | 18,911 | - | 9,315 | 10,041 |
| Addition of acquired schemes | - | - | - | - | 15 |
| Adjusted opening fair value | 2,618 | 18,911 | - | 9,315 | 10,056 |
| Changes in fair value of scheme assets: |  |  |  |  |  |
| Plan asset acquired |  |  |  |  |  |
| Interest income | 70 | 579 | - | 292 | 259 |
| Adjust for actual return on scheme assets | 39 | 769 | - | 445 | 230 |
| Actuarial gains/(losses) | - | - | - | - | 1 |
| Net appropriation from CRF | 3,621 | 862 | 1,670 | 941 | 104 |
| Employer contributions | 11 | 167 | - | - | 125 |
| Participant contributions | 37 | 524 | - | 273 | 99 |
| Foreign currency exchange rate changes | - | - | - | - | 1 |
| Benefits paid | (4,126) | (2,237) | (1,670) | (1,003) | (537) |
| Taxes, premiums and expenses paid | (2) | (25) | - | - | (10) |
| **Fair value at 30 June** | **2,268** | **19,550** | **-** | **10,263** | **10,328** |
| **Composition of scheme assets** |  |  |  |  |  |
| Australian equity | 24.0% | 24.0% | - | 24.0% | 10.1% |
| International equity | 25.0% | 25.0% | - | 24.0% | 21.3% |
| Fixed income | - | - | - | - | 1.1% |
| Property | 8.0% | 8.0% | - | 12.0% | 6.5% |
| Private equity | 6.0% | 6.0% | - | 7.0% | 8.6% |
| Hedge funds | - | - | - | - | 0.5% |
| Infrastructure | 3.0% | 3.0% | - | - | 1.5% |
| Credit | - | - | - | - | 5.6% |
| Debt instruments | 4.0% | 4.0% | - | - | 22.8% |
| Diversified growth funds | - | - | - | - | 0.3% |
| Other | 15.0% | 15.0% | - | 17.0% | 15.3% |
| Cash | 15.0% | 15.0% | - | 16.0% | 6.4% |
| **Total** | **100%** | **100%** | - | **100%** | **100%** |
| **Principal actuarial assumptions at the reporting date** |  |  |  |  |  |
| Discount rate (active members) | 1.7% | 1.9% | 1.4-1.9% | 1.9% | 1.9-3.4% |
| Discount rate (pensioners) | 1.7% | 1.9% | 1.4-1.9% | 1.9% | 1.9% |
| Expected rate of return on plan assets | - | - | - | 1.9% | - |
| Expected salary increase rate | 2.0% | 2.0% | 4.0% | 4.0% | 2.0-4.0% |
| Expected pension increase rate | 2.5% | 2.5% | 2.5-4.0% | 2.5% | 2.3-4.0% |

The discount rate for ‘Other’ Schemes includes schemes sponsored by for-profit entities which apply a corporate bond rate for measurement of the liability. In the CFS, these discount rates are adjusted back to a Government bond rate for the consistent measurement of the overall Australian Government liability.

##### Sensitivity analysis for significant actuarial assumptions

The impact of a change in the defined benefit obligation reported as at 30 June 2020 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% | |  | (6,326) | 7,059 |
| Salary growth rate | 0.5% | |  | 87 | (82) |
| Rate of CPI increase | 0.5% | |  | 5,633 | (5,131) |
| PSS |  |  |  |  |  |
| Discount rate | 0.5% | |  | (16,002) | 18,603 |
| Salary growth rate | 0.5% | |  | 3,169 | (2,979) |
| Rate of CPI increase | 0.5% | |  | 13,039 | (11,638) |
| DFRDB and MSBS |  |  |  |  |  |
| Discount rate | 0.5% | |  | (23,399) | 28,044 |
| Salary growth rate | 0.5% | |  | 6,803 | (6,399) |
| Rate of CPI increase | 0.5% | |  | 18,924 | (16,908) |
| Other |  |  |  |  |  |
| Discount rate | 0.5% | |  | (476) | 536 |
| Salary growth rate | 0.5% | |  | 337 | (297) |

##### Employer contributions

The following table shows the expected contributions for 2020-21 by scheme.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Scheme** |  |  |  |  | 2021 |
|  |  |  |  |  | $m |
| Commonwealth Superannuation Scheme | | |  |  | 8 |
| Public Sector Superannuation Scheme | | |  |  | 150 |
| Defence Force Retirement and Death Benefits Scheme | | |  |  | 1,675 |
| Military Superannuation Benefits Scheme | | |  |  | 1,195 |
| Other schemes | | |  |  | 244 |

##### 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 | | |  |  | 14.0 years |
| Commonwealth Superannuation Scheme 1922 | | |  |  | 8.1 years |
| Public Sector Superannuation Scheme | | |  |  | 22.1 years |
| Defence Force Retirement and Death Benefits Scheme | | |  |  | 18.6 years |
| Defence Forces Retirement Benefits Scheme | | |  |  | 10.7 years |
| Military Superannuation Benefits Scheme | | |  |  | 31.2 years |
| Other schemes | | |  |  | 13.2 years |

1. Related parties
   1. Ministerial remuneration

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

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

|  |  |  |
| --- | --- | --- |
| **Remuneration** | 2020 | 2019 |
|  | $m | $m |
| Short-term employee benefits(a) | 9.8 | 10.6 |
| Post-employment benefits(b) | 1.6 | 62.8 |
| **Total key management personnel remuneration** | **11.4** | **73.4** |

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 amount reported in 2018-19 includes an estimate of the long-term benefits (including staff, office and vehicle costs) that will be made available to the Prime Minister upon retirement from his ministerial office. The estimate was actuarially determined based on a series of assumptions and is recognised when a new Prime Minister takes office. The resources provided to former Prime Ministers are set out in the *Parliamentary Business Resources (former Prime Ministers) Determination 2017*.

The number of Cabinet Minister positions during the financial year was 23   
(2019: 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 10A) and fixed expense entitlements under the *Parliamentary Entitlements Act 1990*. Additionally, they or their close family members and bodies they control may transact with government on the same basis as other Australians, such as for the payment of taxes.

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

Transactions with superannuation funds represent contributions and payments of benefits to members or their beneficiaries. These are made in accordance with the rules of the relevant fund. Contributions to the funds for Cabinet Ministers totalled $1.6 million (2018-19: $1.7 million). Further information about defined benefit funds are included at Note 9C.

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

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 2020, nor have there been any 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:

* **Explanation of differences to ABS GFS measures** (refer Note 12A) which explains the material differences in key fiscal aggregates between the CFS and the corresponding ABS GFS measures;
* **Reconciliation to original budget** (refer Note 12B), also required by AASB 1055 *Budgetary Reporting*, which compares the reported results to the original budget for 2019‑20 as outlined in April 2019 with explanations for key movements; and
* **Glossary of key fiscal aggregates** (refer Note 12C) which explains the key technical terms reported in the CFS and which are not common to financial reports prepared by other entities.
  1. Explanation of differences to ABS GFS measures

The Government Finance Statistics (GFS) framework reports key fiscal aggregates that measure the financial activities of each government and the impacts of those activities on other sectors of the economy. In Australia, the GFS framework is set out in the Australian Bureau of Statistics (ABS) GFS Manual. The main convergence differences between the key fiscal aggregates reported in the CFS under AASB 1049 and the corresponding fiscal aggregates reported under the ABS GFS Manual include:

1. *Concessional interest costs* - The ABS GFS Manual recognises the concessional discount on concessional loans as an ‘other economic flow’. The CFS treats concessional elements as an expense on initial recognition which is unwound over the loan term.
2. *Seigniorage* - The financial statements treat the profit between the cost and sale of circulating coins (seigniorage) as revenue whereas the ABS GFS Manual treats circulating coins 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).
8. *Right-of-use assets and lease liabilities* – AASB 16 introduced a single lease accounting framework for lessees, which replaced the distinction between operating and finance leases. Right-of-use assets and lease liabilities are recognised on the balance sheet for leases that were previously accounted for as operating expenses. The ABS GFS Manual continues the distinction between operating leases and finance leases for lessees.
9. *Inventory -* The ABS GFS Manual measures inventory at market value (rather than the lower of cost and net realisable value).
10. *Provision for decommissioning/restoration costs* – The ABS GFS Manual does not recognise a provision for decommissioning/restoration costs, nor include an estimate of these costs in the corresponding asset value.
11. *Spectrum Auctions* - 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.
12. *Timing recognition of the boosting cash flows for employers* – The financial statements recognise expenses based on underlying activity that gives rise to the Cash Flow Boost payment. At 30 June 2020, an accrual is made for estimated payments that relate to the 2019-20 economic activity, for activity statements that have not yet been submitted. The ABS GFS Manual recognises the expense when the business receives payments after submitting activity statements and having met all requirements.
    1. Reconciliation to original budget

The following tables provide a comparison of the original 2019‑20 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 2019‑20

|  |  |  |  |
| --- | --- | --- | --- |
|  | 2020 | Original | Budget |
|  | Actual | budget(a) | variance |
|  | $m | $m | $m |
| **Revenue from transactions** |  |  |  |
| Taxation revenue | 447,318 | 476,596 | (29,278) |
| Sales of goods and services | 14,789 | 15,757 | (968) |
| Interest income | 3,689 | 6,009 | (2,320) |
| Dividend income | 8,366 | 6,112 | 2,254 |
| Other | 11,908 | 9,290 | 2,618 |
| **Total revenue** | **486,070** | **513,763** | **(27,693)** |
| **Expenses from transactions** |  |  |  |
| *Gross operating expenses* |  |  |  |
| Wages and salaries | 20,721 | 21,348 | (627) |
| Superannuation | 12,247 | 5,907 | 6,340 |
| Depreciation and amortisation | 11,766 | 8,505 | 3,261 |
| Supply of goods and services | 125,455 | 125,566 | (111) |
| Other operating expenses | 8,512 | 6,873 | 1,639 |
| *Total gross operating expenses* | *178,701* | *168,199* | *10,502* |
| Superannuation interest expense | 7,673 | 11,127 | (3,454) |
| Interest expense | 18,463 | 19,264 | (801) |
| *Current transfers* |  |  |  |
| Current grants | 149,799 | 150,408 | (609) |
| Subsidy expenses | 67,641 | 12,661 | 54,980 |
| Personal benefits | 144,714 | 128,972 | 15,742 |
| *Total current transfers* | *362,154* | *292,040* | *70,114* |
| *Capital transfers* |  |  |  |
| Mutually agreed write-downs | 3,114 | 1,368 | 1,746 |
| Other capital grants | 8,568 | 8,874 | (306) |
| *Total capital transfers* | *11,682* | 10,241 | 1,441 |
| **Total expenses** | **578,673** | **500,872** | **77,801** |
| **Net operating balance** | **(92,603)** | **12,891** | **(105,494)** |
| **Other economic flows - included in operating result** |  |  |  |
| Net write-down of assets | (8,225) | (7,650) | (575) |
| Net gain/(loss) from the sale of assets | 2,110 | 1,047 | 1,063 |
| Net foreign exchange gains/(losses) | (949) | 61 | (1,010) |
| Net interest on derivatives gains/(losses) | (563) | - | (563) |
| Net fair value gains/(losses) | (18,004) | 7,747 | (25,751) |
| Net other gains/(losses) | (8,213) | (766) | (7,447) |
| **Operating result** | **(126,447)** | **13,330** | **(139,777)** |
| **Other economic flows - through equity** |  |  |  |
| ***Will not be reclassified to operating result*** |  |  |  |
| Revaluation of non-financial assets | 1,753 | 315 | 1,438 |
| Actuarial revaluations of superannuation | (4,617) | 262 | (4,879) |
| Other economic revaluations | 95 | (324) | 419 |
| ***May be reclassified to operating result*** |  |  |  |
| Revaluation of equity investments | 4,815 | (6,017) | 10,832 |
| **Comprehensive result** | **(124,401)** | **7,565** | **(131,966)** |
| **Net operating balance** | **(92,603)** | **12,891** | **(105,494)** |
| ***less Net acquisition of non-financial assets*** |  |  |  |
| Purchases of non-financial assets | 15,806 | 14,425 | 1,381 |
| *less* Sales of non-financial assets | 1,400 | 1,171 | 229 |
| *less* Depreciation and amortisation | 11,766 | 8,505 | 3,260 |
| *plus* Change in inventories | 1,169 | 3 | 1,166 |
| *plus* Other movements in non-financial assets | 2 | (3) | 5 |
| **Total net acquisition of non-financial assets** | **3,811** | **4,749** | **(938)** |
| **Fiscal balance (Net lending/borrowing)** | **(96,414)** | **8,142** | **(104,556)** |

1. Original budget for 2019‑20 in the 2019‑20 Budget papers released in April 2019, presented on the same basis as the actual information to facilitate comparison.

##### Revenue

| Line item | Variance | Explanation |
| --- | --- | --- |
| Taxation revenue | ($29.3b) | Total taxation revenue was $29.3 billion lower than the original budget, largely driven by the impacts from the COVID-19 pandemic.  Company tax was $12.8 billion lower than original budget, partly due to the impact of health restrictions, which reduced taxable incomes.  Individuals and other withholding taxes were $4.4 billion lower than original budget, resulting from weaker collections in line with the deterioration in labour market conditions and lodgement and payment deferrals granted by the ATO.  Goods and services tax was $4.3 billion lower than original budget, reflecting lower-than-expected household consumption and private dwelling investment.  Superannuation fund taxes were $3.1 billion lower than original budget, largely due to impacts from the COVID-19 pandemic on superannuation funds.  Excise and customs duties were $2.6 billion lower than original budget, also reflecting lower-than-expected household consumption, particularly through petrol excise and tobacco duty. |
| Dividend income | $2.3b | Dividend revenue was $2.3 billion higher than the original budget, primarily driven by higher-than-expected dividend revenue from the Reserve Bank of Australia and investments held by the Future Fund. |

##### Expenses

| Line item | Variance | Explanation |
| --- | --- | --- |
| Subsidy expenses | $55.0b | Subsidy expenses were $55.0 billion higher than the original budget, primarily reflecting the JobKeeper Payments and the temporary tax‑free cash flow boosts to support businesses as part of the Government’s economic response to the COVID-19 pandemic. |
| Personal benefits | $15.7b | Personal benefit expenses were $15.7 billion higher than the original budget, primarily reflecting the time limited Coronavirus Supplement and the first payment of the Economic Support Payment to assist households as part of the Government’s economic response to the COVID-19 pandemic, together with changes in recipient numbers and average payment rate of social welfare payments as a result of the impact of COVID-19 on the economy. |
| Superannuation | $6.3b | Superannuation expenses were $6.3 billion higher than the original budget, resulting from the difference between discount rates used to value the Government’s defined benefit superannuation liability at the 2019-20 Budget and as at 30 June 2020 for the CFS. This increase in superannuation expenses was offset by lower-than-expected superannuation interest expense, which was $3.5 billion lower than the original budget.  At the 2019-20 Budget, actuaries determined the long-term discount rate to be 5.0 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’ views 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 as at 30 June 2020 that best matches each individual scheme’s liability duration. The rates used were between 1.0 to 1.7 per cent per annum depending on the defined benefit scheme. Lower discount rates result in a higher superannuation liability, higher superannuation expenses and lower nominal superannuation interest expense. |
| Depreciation and amortisation | $3.3b | Depreciation and amortisation expenses were $3.3 billion higher than the original budget, largely reflecting the impact from the implementation of AASB 16 *Leases*. |

##### Other economic flows

|  |  |  |
| --- | --- | --- |
| Line item | Variance | Explanation |
| Net fair value gains/(losses) | ($25.8b) | Net fair value losses were $25.8 billion higher than the original budget, largely reflecting the higher market value of Australian Government Securities as a result of lower market yields and the change in valuation of investments held by the Future Fund. |
| Net other gains/(losses) | ($7.4b) | Net other losses were $7.4 billion higher than the original budget, mainly relating to the actuarial revaluation of military compensation provisions. |
| Actuarial revaluations of superannuation | ($4.9b) | The movement of $4.9 billion in the value of the superannuation liability compared to the original budget was 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 1.4 and  1.9 per cent per annum as at 30 June 2019 to a range between  1.0 and 1.7 per cent per annum as at 30 June 2020). For Budget purposes, a long-term discount rate of 5.0 per cent per annum is used. |
| Revaluation of equity investments | $10.8b | The movement of $10.8 billion in the revaluation of equity investments compared to the original budget relates to the change in the valuation of public corporations. |

#### General government sector balance sheet as at 30 June 2020

|  |  |  |  |
| --- | --- | --- | --- |
|  | 2020 | Original | Budget |
|  | Actual | budget(a) | variance |
|  | $m | $m | $m |
| **Assets** |  |  |  |
| *Financial assets* |  |  |  |
| Cash and deposits | 9,453 | 5,342 | 4,111 |
| Advances paid | 82,043 | 83,302 | (1,259) |
| Other receivables and accrued revenue | 67,032 | 53,728 | 13,304 |
| Investments, loans and placements | 243,458 | 188,358 | 55,100 |
| Equity investments | 125,349 | 121,920 | 3,429 |
| *Total financial assets* | *527,335* | *452,650* | *74,685* |
|  |  |  |  |
| *Non-financial assets* |  |  |  |
| Land | 11,718 | 11,484 | 234 |
| Buildings | 43,386 | 27,589 | 15,797 |
| Other plant, equipment and infrastructure  (including specialist military equipment) | 89,100 | 86,178 | 2,922 |
| Intangibles | 9,088 | 9,353 | (265) |
| Investment property | 209 | 193 | 16 |
| Inventories | 9,812 | 8,045 | 1,767 |
| Heritage and cultural assets | 11,978 | 11,594 | 384 |
| Other non-financial assets | 4,995 | 3,926 | 1,069 |
| *Total non-financial assets* | *180,286* | *158,362* | *21,924* |
| **Total assets** | **707,621** | **611,012** | **96,609** |
|  |  |  |  |
| **Liabilities** |  |  |  |
| *Interest bearing liabilities* |  |  |  |
| Deposits held | 484 | 381 | 103 |
| Government securities | 784,973 | 619,463 | 165,510 |
| Loans | 10,932 | 10,713 | 219 |
| Leases | 19,879 | 1,458 | 18,421 |
| Other interest bearing liabilities | 7,319 | 6,024 | 1,295 |
| *Total interest bearing liabilities* | *823,587* | *638,042* | *185,545* |
|  |  |  |  |
| *Provisions and payables* |  |  |  |
| Superannuation liability | 430,105 | 230,748 | 199,357 |
| Other employee liabilities | 32,262 | 20,591 | 11,671 |
| Supplier payables | 7,396 | 6,809 | 587 |
| Personal benefits payable | 4,670 | 3,746 | 924 |
| Subsidies payable | 1,041 | 1,210 | (169) |
| Grants payable | 2,847 | 3,927 | (1,080) |
| Other payables | 3,461 | 2,202 | 1,259 |
| Other provisions | 69,531 | 37,060 | 32,471 |
| *Total provisions and payables* | *551,313* | *306,294* | *245,019* |
| **Total liabilities** | **1,374,900** | **944,336** | **430,564** |
|  |  |  |  |
| **Net worth** | **(667,279)** | **(333,324)** | **(333,955)** |

1. Original budget for 2019‑20 in the 2019‑20 Budget papers released in April 2019, presented on the same basis as the actual information to facilitate comparison.

##### Assets

|  |  |  |
| --- | --- | --- |
| Line item | Variance | Explanation |
| Other receivables and accrued revenue | $13.3b | Other receivables and accrued revenue was $13.3 billion higher than the original budget, largely driven by the increase in tax receivables relating to payment deferrals granted to taxpayers experiencing financial hardship as a result of the COVID-19 pandemic and the receivable recognised in respect of the advances that were paid to the states for GST during 2019-20. |
| Investments loans and placements | $55.1b | Investments, loans and placements were $55.1 billion higher than the original budget, primarily reflecting the increase in term deposits held by the Australian Office of Financial Management and the increase in interesting bearing securities held by the Future Fund. |
| Non-financial assets | $21.9b | Non-financial assets were $21.9 billion higher than the original budget, largely due to the implementation of AASB 16 *Leases*. |

##### Liabilities

|  |  |  |
| --- | --- | --- |
| Line item | Variance | Explanation |
| Government securities | $165.5b | The market value of Australian Government Securities on issue was $165.5 billion higher than forecast in the original budget, primarily reflecting the Government’s increased borrowing requirements stemming from the response to, and impacts of, the COVID-19 pandemic. The reduction in market yields has also led to a higher valuation in the debt outstanding. |
| Leases | $18.4b | Lease liabilities were $18.4 billion higher than the original budget, due to the implementation of AASB 16 *Leases.* |
| Superannuation liability | $199.4b | The superannuation liability was $199.4 billion higher than the original budget, primarily due to the lower discount rate used to calculate the liability as at 30 June 2020 for the CFS (refer to the explanation for superannuation expenses for further information). |
| Other employee liabilities | $11.7b | Other employee liabilities were $11.7 billion higher than original budget, primarily related to the actuarial revaluation of the military compensation provisions. |
| Other provisions | $32.5b | Other provisions were $32.5 billion higher than the original budget, primarily reflecting the provision for JobKeeper and cash flow boost payments to businesses as part of the Government’s economic response to the COVID-19 pandemic and the change in actuarial valuation of the military compensation provisions. |

#### General government sector cash flow statement 2019‑20

|  |  |  |  |
| --- | --- | --- | --- |
|  | 2020 | Original | Budget |
|  | Actual | budget(a) | variance |
|  | $m | $m | $m |
| **OPERATING ACTIVITIES** |  |  |  |
| **Cash received** |  |  |  |
| Taxes received | 431,775 | 466,397 | (34,622) |
| Receipts from sales of goods and services | 15,490 | 15,745 | (255) |
| Interest receipts | 3,243 | 5,701 | (2,458) |
| Dividend receipts | 7,007 | 6,165 | 842 |
| Other receipts | 10,127 | 9,897 | 230 |
| **Total cash received** | **467,642** | **503,906** | **(36,264)** |
| **Cash used** |  |  |  |
| Payments for employees | (30,472) | (31,101) | 629 |
| Payments for goods and services | (126,738) | (123,277) | (3,461) |
| Grants and subsidies paid | (210,773) | (171,775) | (38,998) |
| Interest paid | (16,257) | (16,638) | 381 |
| Interest payments on lease liabilities | (266) | - | (266) |
| Personal benefits paid | (143,073) | (129,783) | (13,290) |
| Other payments | (6,917) | (6,493) | (424) |
| **Total cash used** | **(534,496)** | **(479,066)** | **(55,430)** |
| **Net cash from/(used by) operating activities** | **(66,854)** | **24,840** | **(91,694)** |
| **INVESTING ACTIVITIES** |  |  |  |
| **Investments in non-financial assets** |  |  |  |
| Sales of non-financial assets | 1,724 | 1,615 | 109 |
| Purchases of non-financial assets | (12,952) | (14,261) | 1,309 |
| **Net cash from non-financial assets** | **(11,228)** | **(12,647)** | **1,419** |
| **Net cash flows from investments in financial** |  |  |  |
| **assets for policy purposes** | **(13,555)** | **(16,581)** | **3,026** |
| **Net cash flows from investments in financial** |  |  |  |
| **assets for liquidity purposes** | **(53,640)** | **(12,248)** | **(41,392)** |
| **Net cash from/(used by) investing activities** | **(78,423)** | **(41,476)** | **(36,947)** |
| **FINANCING ACTIVITIES** |  |  |  |
| **Cash flows from financing activities** |  |  |  |
| **Net cash received** |  |  |  |
| Borrowings | 151,403 | 16,945 | 134,458 |
| Contributed equity | 2 | - | 2 |
| Other financing | 4,395 | 22 | 4,373 |
| **Net cash received** | **155,800** | **16,966** | **138,834** |
| **Net cash used** |  |  |  |
| Distributions paid | (3) | (1) | (2) |
| Principal payments of lease liabilities | (2,361) | - | (2,361) |
| Other financing | (7,523) | (2,551) | (4,972) |
| **Net cash used** | **(9,887)** | **(2,552)** | **(7,335)** |
| **Net cash flows from financing activities** | **145,913** | **14,414** | **131,499** |
| **Net (decrease)/increase in cash held** | **636** | **(2,222)** | **2,858** |
| **Cash at beginning of year** | **8,817** | **7,564** | **1,253** |
| **Cash at end of year** | **9,453** | **5,342** | **4,111** |
|  |  |  |  |
| **Key fiscal aggregate** |  |  |  |
| Net cash flows from operating activities | (66,854) | 24,840 | (91,694) |
| Net cash flows from investments in |  |  |  |
| non-financial assets | (11,228) | (12,647) | 1,419 |
| **Cash surplus/(deficit)** | **(78,082)** | **12,193** | **(90,275)** |

1. Original budget for 2019‑20 in the 2019‑20 Budget papers released in April 2019, 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. 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 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 $79.7 million (2019: $81.0 million). The audit of the CFS cost $0.7 million (2019: $0.6 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 2020.

|  |  |
| --- | --- |
| **Agriculture, Water and the Environment Portfolio** | |
| **General Government:** |  |
| Australian Fisheries Management Authority  Australian Pesticides and Veterinary Medicines Authority  Bureau of Meteorology  Cotton Research and Development Corporation  Department of Agriculture, Water and the Environment  Director of National Parks  Fisheries Research and Development Corporation | Grains Research and Development Corporation  Great Barrier Reef Marine Park Authority  Murray Darling Basin Authority  Regional Investment Corporation  Rural Industries Research and Development Corporation  Sydney Harbour Federation Trust  Wine Australia |
| **Attorney‑General’s Portfolio** | |
| **General Government:** |  |
| Administrative Appeals Tribunal  Asbestos Safety and Eradication Agency  Attorney General's Department  Australian Building and Construction Commission  Australian Commission for Law Enforcement Integrity  Australian Financial Security Authority  Australian Human Rights Commission  Australian Law Reform Commission  Comcare  Fair Work Commission  Fair Work Ombudsman and Registered Organisations Commission Entity | 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 Director of Public Prosecutions  Office of the Inspector General of Intelligence and Security  Office of Parliamentary Counsel  Safe Work Australia  Seafarers Safety, Rehabilitation and Compensation Authority (Seacare Authority) |
| **Public Financial Corporation:** |  |
| Coal Mining Industry (Long Service Leave Funding) Corporation |  |
| **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 Signals Directorate  Australian Strategic Policy Institute Ltd (company limited by guarantee)  Australian War Memorial  Defence Housing Australia | Department of Defence  Department of Veterans’ Affairs  RAAF Welfare Recreational Company (company limited by guarantee)  Royal Australian Air Force Veterans’ Residences Trust Fund  Royal Australian Air Force Welfare Trust Fund  Royal Australian Navy Central Canteens Board  Royal Australian Navy Relief Trust Fund |
|  |  |
| **Education, Skills and Employment 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, Skills and Employment  Tertiary Education Quality and Standards Agency |
| **Finance Portfolio** | |
| **General Government:** |  |
| Australian Electoral Commission  Commonwealth Superannuation Corporation  Department of Finance | Future Fund Management Agency  Independent Parliamentary Expenses Authority |
| **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:** |  |
| Aged Care Quality and Safety Commission  Australian Commission on Safety and Quality in Health Care  Australian Digital Health Agency  Australian Institute of Health and Welfare  Australian National Preventive Health Agency  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  Organ and Tissue Authority  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 |
|  |  |
| **Industry, Science, Energy and Resources Portfolio** | |
| **General Government:** |  |
| Australian Institute of Marine Science  Australian Nuclear Science and Technology Organisation  Australian Renewable Energy Agency  Clean Energy Finance Corporation  Clean Energy Regulator  Climate Change Authority  Commonwealth Scientific and Industrial Research Organisation | Department of Industry, Science, Energy and Resources  Geoscience Australia  IP Australia  National Offshore Petroleum Safety and Environmental Management Authority  Northern Australia Infrastructure Facility |
| **Public Non-Financial Corporation:** |  |
| ANSTO Nuclear Medicine Pty Ltd | Snowy Hydro Limited |
| **Public Financial Corporations:** |  |
| CSIRO FollowOn Services Pty Ltd  CSIRO FollowOn Services 2 Pty Ltd  CSIRO General Partner Pty Ltd | CSIRO General Partner 2 Pty Ltd  CSIROGP Fund 2 Pty Ltd |
| **Infrastructure, Transport, Regional Development and Communications Portfolio** | |
| **General Government:** |  |
| Australia Business Arts Foundation Ltd (Creative Partnerships Australia) (company limited by guarantee)  Australia Council  Australian Broadcasting Corporation  Australian Communications and Media Authority  Australian Film, Television and Radio School  Australian Maritime Safety Authority  Australian National Maritime Museum  Australian Transport Safety Bureau  Bundanon Trust (company limited by guarantee)  Civil Aviation Safety Authority  Department of Infrastructure, Transport, Regional Development and Communications | Infrastructure Australia  National Capital Authority  National Faster Rail Agency  National Film and Sound Archive of Australia  National Gallery of Australia  National Library of Australia  National Museum of Australia  National Portrait Gallery of Australia  National Transport Commission  Norfolk Island Health and Residential Aged Care Service  North Queensland Water Infrastructure Authority  Screen Australia  Special Broadcasting Service Corporation |
| **Public Non-Financial Corporations:** |  |
| Airservices Australia  Australian Postal Corporation (Australia Post)  Australian Rail Track Corporation Limited | Moorebank Intermodal Company Limited  nbn Co Ltd  WSA Co 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  Indigenous Business Australia  Indigenous Land and Sea Corporation  National Australia Day Council Limited (company limited by guarantee) | National Drought and North Queensland Flood Response and Recovery Agency  National Indigenous Australians Agency  Office of National Intelligence  Office of the Official Secretary to the Governor General  Old Parliament House  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  Digital Transformation Agency | National Disability Insurance Scheme Launch Transition Agency (National Disability Insurance Agency)  NDIS Quality and Safeguards Commission  Services Australia[[1]](#footnote-1) |
| **Public Non-Financial Corporation:** |  |
| Australian Hearing Services (Hearing Australia) |  |
| **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  Department of the Treasury  Financial Adviser Standards and Ethics Authority Ltd (company limited by guarantee) | Infrastructure and Project Financing Agency  Inspector General of Taxation  National Competition Council  National Housing Finance and Investment Corporation (National Housing Infrastructure Facility)  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 | 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 2019-20

*Entities no longer consolidated*

Department of Agriculture1 (1 February 2020)

Department of Communications and the Arts1 (1 February 2020)

Department of Employment, Skills, Small and Family Business1 (1 February 2020)

*Entities newly controlled/established in 2019-20*

National Faster Rail Agency (1 July 2019)

National Indigenous Australians Agency (1 July 2019)

CSIRO FollowOn Services 2 Pty Ltd (24 March 2020)

CSIROGP Fund 2 Pty Ltd (24 March 2020)

*Entities with name changes*

Department of Agriculture, Water and the Environment   
(previously Department of the Environment and Energy)

Department of Education, Skills and Employment   
(previously Department of Education)

Department of Industry, Science, Energy and Resources   
(previously Department of Industry, Innovation and Science)

Department of Infrastructure, Transport, Regional Development and Communications (previously Department of Infrastructure, Transport, Cities and Regional Development)

National Drought and North Queensland Flood Response and Recovery Agency   
(previously North Queensland Livestock Industry Recovery Agency)

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

1 The financial information of abolished entities have been reported as part of the entity where functions were transferred to under the Administrative Arrangement Orders effective from 1 February 2020.

1. Services Australia became an Executive Agency from 1 February 2020. [↑](#footnote-ref-1)