

Commonwealth of Australia

CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2014

CIRCULATED BY

SENATOR THE HONOURABLE MATHIAS CORMANN  
MINISTER FOR FINANCE  
OF THE COMMONWEALTH OF AUSTRALIA  
NOVEMBER 2014

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## PREFACE

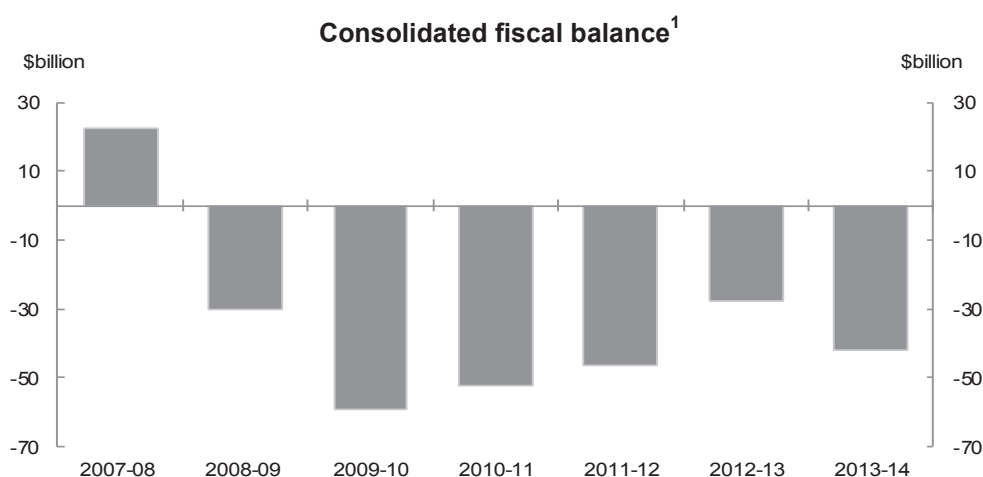
I am pleased to present the Consolidated Financial Statements (CFS) for the Australian Government for the financial year ended 30 June 2014. The CFS presents the whole of government and general government sector (GGS) financial reports. It consolidates the audited accounts of 205 entities across the public sector.

The CFS has been prepared in accordance with the regulations of the *Financial Management and Accountability Act 1997* (FMA Act) and applicable Australian Accounting Standards (AAS), including the requirements of AASB 1049 *Whole of Government and General Government Sector Financial Reporting* (AASB 1049). The CFS shows the results of the Australian Government's operations and cash flows for the year ended 30 June 2014 and the Australian Government's financial position as at 30 June 2014.

The Preface and the Commentary on the Financial Statements should be read in light of the information and explanations provided in the Statement of Compliance and the CFS.

### FISCAL BALANCE

The Australian Government fiscal balance for the year ended 30 June 2014 was a deficit of \$42.2 billion. For the year ended 30 June 2013, the Australian Government reported a fiscal balance deficit of \$28.0 billion.



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1 The reporting of consolidated fiscal balance commenced in 2008-09 when the consolidated financial statements were prepared in accordance with the whole of government requirements of AASB 1049 for the first time. The 2007-08 results were restated consistent with this standard in the 2008-09 CFS.

## Preface

Australian Government taxation revenue increased by \$14.7 billion (4.4 per cent) in 2013-14, reflecting an increase in taxes from individuals, goods and services tax, company and excise-like customs duty. Non-taxation revenue increased by \$1.1 billion (3.0 per cent).

Australian Government expenses increased by \$25.5 billion (6.5 per cent) in 2013-14. This was mainly driven by an \$18.1 billion increase overall in current and capital transfers, a \$4.2 billion increase in operating expenses, a \$1.7 billion increase in interest expenses and a \$1.5 billion increase in superannuation interest expenses.

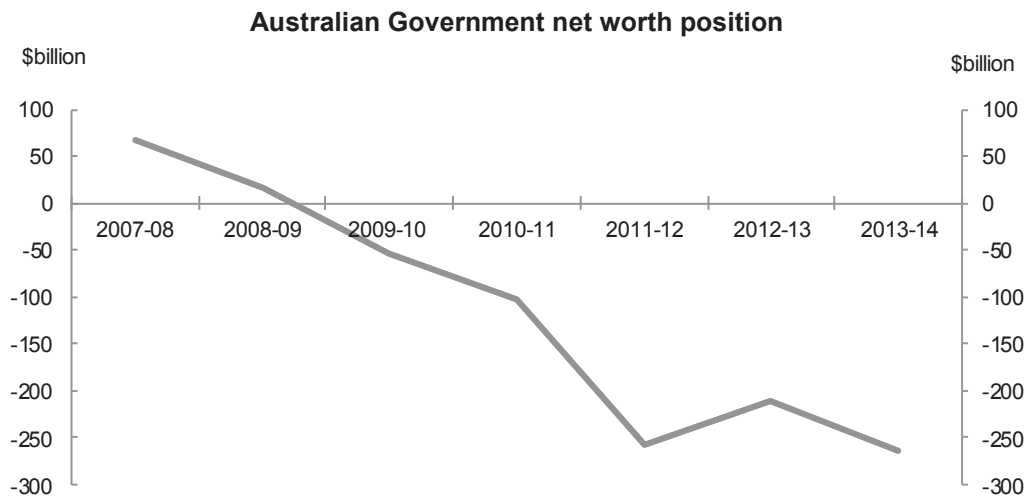
The increase in current and capital transfers was due to a growth of \$8.0 billion in personal benefits; \$9.0 billion in current and capital grants; and \$1.1 billion in subsidy expenses.

Within operating expenses, supply of goods and services grew by \$4.8 billion, wages and salaries grew by \$0.7 billion, partially offset by a decrease in superannuation expense of \$1.8 billion, and smaller movements in other line items.

In addition, the Australian Government's net acquisition of non-financial assets increased by \$4.5 billion.

## BALANCE SHEET

The Australian Government's net worth was negative \$264.3 billion at 30 June 2014. As at 30 June 2013, the Australian Government's net worth was negative \$210.5 billion.



The Australian Government's financial assets increased by \$49.5 billion (16.3 per cent) in 2013-14. Total non-financial assets increased by \$9.5 billion (7.4 per cent).

The Australian Government's liabilities increased by \$112.8 billion (17.6 per cent) to \$754.1 billion. The increase is primarily as a result of an increase in interest bearing

liabilities of \$82.2 billion (26.1 per cent) which includes a \$62.5 billion increase in the value of Commonwealth Government Securities and an increase in interest bearing deposits of \$18.4 billion. Provisions and payables increased by \$30.6 billion (9.4 per cent) mainly due to an increase in the superannuation liability of \$28.3 billion.

## **CASH FLOW**

The Australian Government recorded a cash deficit of \$40.1 billion in 2013-14 from operating activities and investing activities in non-financial assets. The closing cash position was \$4.5 billion.

## **CONTINGENT LIABILITIES, CONTINGENT ASSETS AND RISKS**

Contingent liabilities and contingent assets for the Australian Government are not disclosed in the balance sheet but are set out in detail in Note 36. Analysis of interest rate, foreign currency, default and other risks that could potentially impact on the Australian Government's financial position is included in Note 37.

I would like to thank the many Australian Government employees whose efforts have contributed to the completion of the 2013-14 CFS.

A handwritten signature in black ink, appearing to be 'Mh' with a flourish at the end.

Senator the Hon Mathias Cormann  
Minister for Finance





## **COMMENTARY ON THE FINANCIAL STATEMENTS**



## INTRODUCTION

The 2013-14 Consolidated Financial Statements (CFS) for the Australian Government are required by section 55 of the *Financial Management and Accountability Act 1997* (FMA Act).<sup>1</sup> The CFS presents the whole of government and general government sector (GGS) financial reports and are prepared in accordance with the Australian Accounting Standard *AASB 1049 – Whole of Government and General Government Sector Financial Reporting* (AASB 1049).

The financial report includes consolidated results for all Australian Government controlled entities as well as disaggregated information on the various sectors of government (general government, public non-financial corporations and public financial corporations). The institutional structure of the public sector is explained in Note 1. Note 45 provides the list of Australian Government controlled reporting entities, including their sectoral classification.

### At a glance

**Table 1: Financial results for the year ended 30 June (2009-10 to 2013-14)**

	2009-10	2010-11	2011-12	2012-13	2013-14
	\$b	\$b	\$b	\$b	\$b
Revenue	298.9	322.3	350.4	370.4	386.2
Expenses	350.7	368.0	389.8	393.9	419.4
Net capital investment	7.6	6.7	6.9	4.5	9.0
<b>Fiscal balance</b>	<b>(59.4)</b>	<b>(52.4)</b>	<b>(46.3)</b>	<b>(28.0)</b>	<b>(42.2)</b>
Total assets	377.2	377.0	390.6	430.9	489.8
Total liabilities	431.2	480.2	647.4	641.4	754.1
<b>Net worth</b>	<b>(53.9)</b>	<b>(103.1)</b>	<b>(256.9)</b>	<b>(210.5)</b>	<b>(264.3)</b>
Operating activities	(44.3)	(33.7)	(29.6)	(10.3)	(27.5)
Investing activities in non-financial assets	(12.5)	(11.5)	(12.5)	(9.2)	(12.6)
<b>Cash surplus/(deficit)</b>	<b>(56.8)</b>	<b>(45.2)</b>	<b>(42.1)</b>	<b>(19.5)</b>	<b>(40.1)</b>

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<sup>1</sup> The *Financial Management and Accountability Act 1997* was replaced by the *Public Governance, Performance and Accountability Act 2013* (PGPA Act) on 1 July 2014. The PGPA Act will be applied to the 2014-15 Consolidated Financial Statements onwards.

*Commentary on the financial statements*

The Australian Government financial results for 2013-14 were as follows:

- The **fiscal balance result** for the year to 30 June 2014 was a **deficit of \$42.2 billion**.<sup>2</sup> For the year ended 30 June 2013, the Australian Government reported a fiscal balance deficit of \$28.0 billion.
- **Total revenues** for 2013-14 were **\$386.2 billion**, an increase of \$15.7 billion (4.2 per cent) compared to 2012-13.
- **Total expenses** for 2013-14 were **\$419.4 billion**, an increase of \$25.5 billion (6.5 per cent) compared to 2012-13.
- **Net acquisition of non-financial assets** for 2013-14 were **\$9.0 billion**, an increase of \$4.5 billion (99.2 per cent) compared to 2012-13.
- The Australian Government's closing **net worth** position was negative **\$264.3 billion** at 30 June 2014, a decrease of \$53.8 billion since 30 June 2013.
- **Total assets** increased by \$58.9 billion (13.7 per cent) since 30 June 2013 to **\$489.8 billion** at 30 June 2014.
- **Total liabilities** increased by \$112.8 billion (17.6 per cent) since 30 June 2013 to **\$754.1 billion** at 30 June 2014.
- The **cash deficit** was **\$40.1 billion**, an increase of \$20.6 billion compared to 2012-13.

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2 Unless explicitly stated, the financial results reported in this commentary comprise consolidated amounts for the Australian Government as a whole, inclusive of the general government sector, public non-financial corporations sector and public financial corporations sector. The balances and movements detailed in the commentary have been rounded to the nearest tenth of a billion. Discrepancies between totals and sums of components are due to rounding.

## DISCUSSION AND ANALYSIS

### Operating statement

**Table 2: Operating statement**

	2013-14	2012-13	Change	Change
	\$b	\$b	\$b	%
Revenue	386.2	370.4	15.8	4.3
Expenses	419.4	393.9	25.5	6.5
<b>Net operating balance</b>	<b>(33.2)</b>	<b>(23.5)</b>	<b>(9.7)</b>	<b>41.3</b>
Less Net acquisitions of non-financial assets	9.0	4.5	4.5	100.0
<b>Australian Government fiscal balance</b>	<b>(42.2)</b>	<b>(28.0)</b>	<b>(14.2)</b>	<b>50.7</b>

The fiscal balance for the year to 30 June 2014 was a deficit of \$42.2 billion. For the year ended 30 June 2013, the Australian Government reported a fiscal balance deficit of \$28.0 billion.

The decline in the fiscal balance between 2012-13 and 2013-14 reflects an increase in total expenses by \$25.5 billion and an increase in the net acquisition of non-financial assets of \$4.5 billion, partially offset by an increase in total revenues of \$15.8 billion.

The increase in expenses was largely due to the rise in the purchase of goods and services, the increase in grants and the growth in direct personal benefits.

The increase in revenues was primarily due to an increase in taxation revenue flowing from the modest growth in employment and wages and personal non-wage income; and a small increase in the sale of goods and services.

The increase in the acquisition of non-financial assets is due to procurement activity in the Department of Defence (Defence) and National Broadband Network Co Ltd (NBN Co) construction projects.

Chart 1 provides a comparison of the Australian Government's consolidated fiscal balance since 2007-08.

**Chart 1: Consolidated fiscal balance<sup>3</sup>**

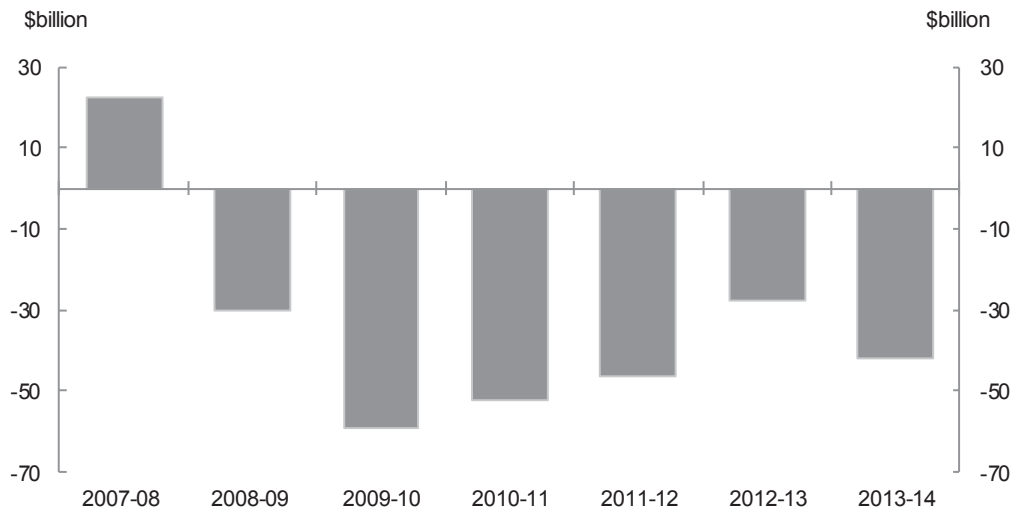
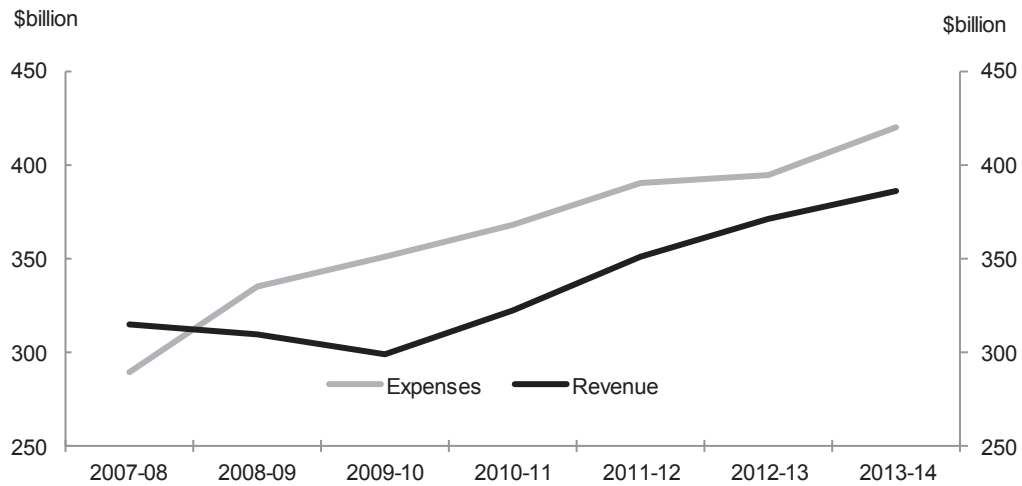


Chart 2 provides a trend of the Australian Government's consolidated revenues and expenses since 2007-08.

**Chart 2: Revenue and expenses**



<sup>3</sup> The reporting of consolidated fiscal balance commenced in 2008-09 when the consolidated financial statements were prepared in accordance with the whole of government requirements of AASB 1049 for the first time. The 2007-08 results were restated consistent with this standard in the 2008-09 CFS.

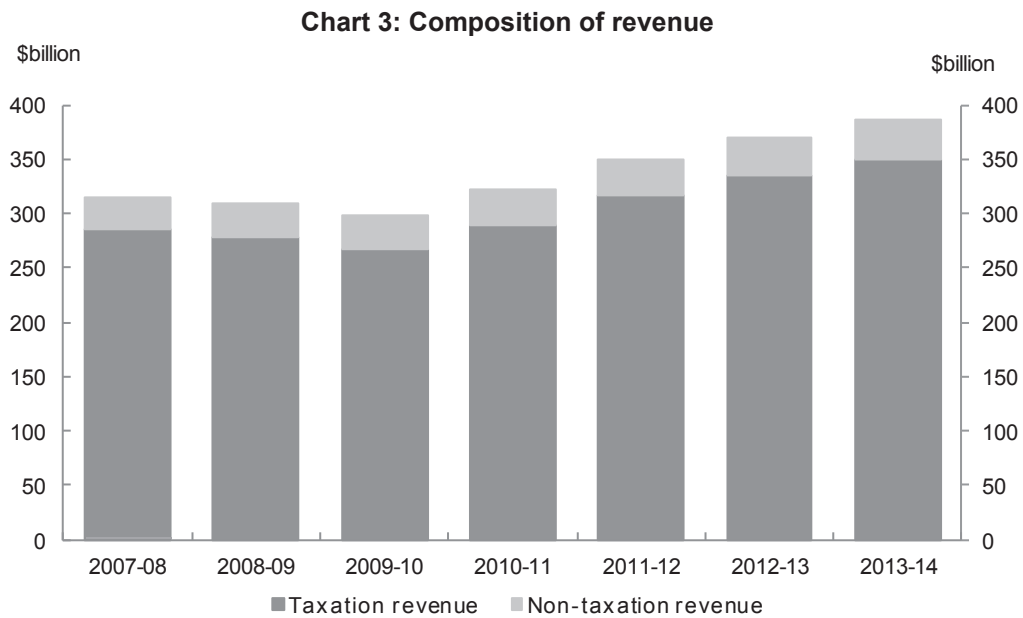
### Australian Government revenue

The Australian Government's revenue increased by \$15.8 billion (4.2 per cent) in 2013-14 to \$386.2 billion.

**Table 3: Revenue**

	2013-14	2012-13	Change	Change
	\$b	\$b	\$b	%
Taxation revenue	349.1	334.4	14.7	4.4
Non-taxation revenue	37.1	36.0	1.1	3.0
<b>Total revenue</b>	<b>386.2</b>	<b>370.4</b>	<b>15.8</b>	<b>4.2</b>

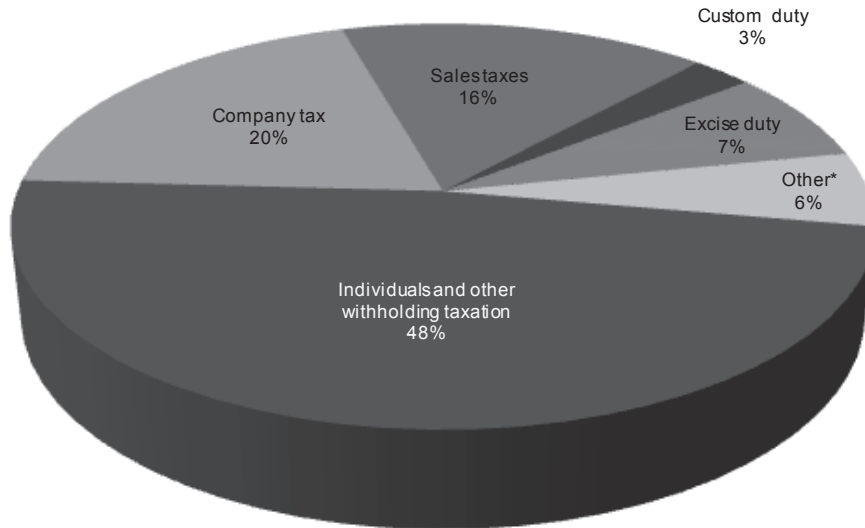
Chart 3 shows the composition of revenue since 2007-08.



### Taxation revenue

The Australian Government total taxation revenue for the year ended on 30 June 2014 was \$349.1 billion. The composition of taxation revenue is shown in Chart 4 below.

**Chart 4: Composition of taxation revenue**



\*Other includes Resource Rent Tax (\$1.8b), Fringe Benefits Tax (\$4.3b), Carbon Pricing Mechanism (\$4.7b), Superannuation funds (\$6.2b) and Other — indirect taxation (\$3.8b) categories

**Table 4: Australian Government — taxation revenue**

	2013-14 \$b	2012-13 \$b	Change \$b	Change %
Income taxation				
Individuals and other withholding taxation	167.9	159.8	8.1	5.1
Company tax	68.6	67.8	0.8	1.2
Fringe benefits tax	4.3	4.0	0.3	7.5
Superannuation funds	6.2	7.5	(1.4)	(18.7)
Resource rent taxes	1.8	1.9	(0.1)	(5.3)
Total income taxation	248.8	241.0	7.7	3.2
Sales taxes	56.8	51.3	5.5	10.7
Excise duty	25.7	25.7	0.0	0.0
Custom duty	9.3	8.2	1.1	13.4
Carbon pricing mechanism	4.7	5.0	(0.3)	(6.0)
Other - indirect taxation	3.8	3.2	0.6	18.8
<b>Total taxation revenue</b>	<b>349.1</b>	<b>334.4</b>	<b>14.7</b>	<b>4.4</b>



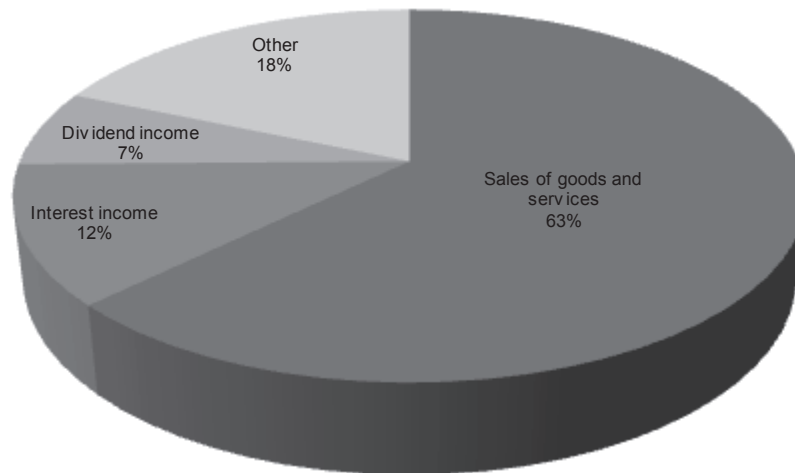
Taxation revenue increased by \$14.7 billion (4.4 per cent) to \$349.1 billion. The key movements in taxation revenue from 2012-13 to 2013-14 were:

- increase of \$8.1 billion (5.1 per cent) from individuals and other withholding taxation. The growth in individuals and other withholding taxation is broadly consistent with the growth in personal non-wage income. In 2012-13 this grew by 4.9 per cent;
- increase of \$5.5 billion in sales tax with the main contributor being a \$5.3 billion (10.7 per cent) increase in goods and services tax (GST). This is in line with the growth in consumption subject to GST;
- increase of \$0.8 billion (1.2 per cent) from company tax. Weaker corporate profitability, as well as resolving outstanding dispute matters, has impacted on the growth in company tax;
- increase of \$1.1 billion (13.4 per cent) in customs duty mainly in relation to excise-like goods. This results from a higher volume of goods imported due to increased consumer demand, as well as the introduction of 12.5 per cent excise on tobacco from 1 December 2013; and
- decrease of \$1.4 billion (18.7 per cent) from superannuation due to lower than expected taxable contributions and earnings as well as the resolution of some outstanding disputed matters.

### Non-taxation revenue

The Australian Government's total non-taxation revenue for the year ended on 30 June 2014 was \$37.1 billion. The composition of non-taxation revenue is shown in Chart 5 below.

**Chart 5: Composition of non-taxation revenue**



**Table 5: Non-taxation revenue**

	2013-14 \$b	2012-13 \$b	Change \$b	Change %
Sales of goods and services	23.2	22.1	1.1	5.0
Interest income	4.5	4.7	(0.2)	(4.3)
Dividend income	2.5	2.2	0.3	13.6
Other	6.9	7.0	(0.1)	(1.4)
<b>Total non-taxation revenue</b>	<b>37.1</b>	<b>36.0</b>	<b>1.1</b>	<b>3.0</b>

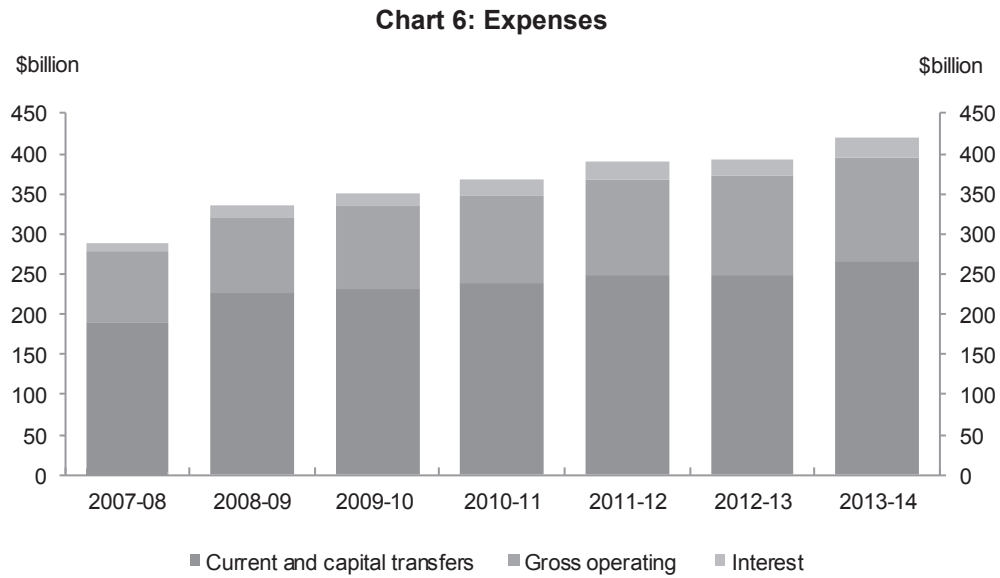
Total non-taxation revenue increased by \$1.1 billion (3.0 per cent) to \$37.1 billion. The key movements in non-taxation revenue from 2012-13 to 2013-14 were as follows:

- increase of \$1.1 billion in sales of goods and services revenue mainly associated with:
  - an increase of \$1.3 billion in sales revenue from public corporations, including \$0.5 billion in Australia Postal Corporation (Australia Post) revenue driven by growth in its parcel business, and an increase of \$0.7 billion increase in Medibank Private Limited (Medibank) health insurance revenue;
  - an increase of \$0.4 billion in visa application fee revenue due to the consumer price index increase on the visa application charges from 1 July 2013; and

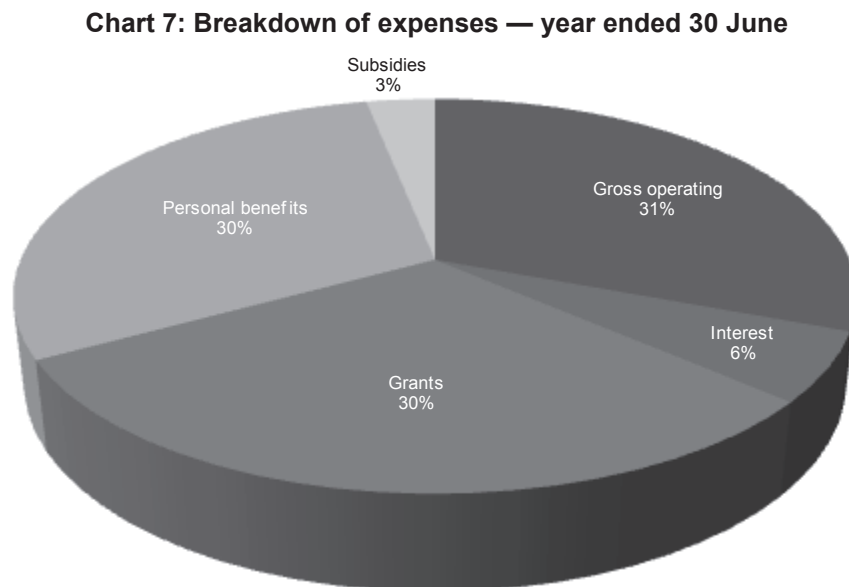
- an increase of \$0.1 billion in housing inventory sales in Defence Housing Australia; and partially offset by;
  - a decrease of \$0.6 billion in revenue from unclaimed monies under the *Banking Act 1959*, *Life Insurance Act 1995* and *Corporations Act 2001*, resulting from the 2012-13 changes reducing the period of time that banks and other deposit taking and life insurance institutions hold unclaimed moneys from seven to three years, as well as changes to the administrative arrangements for unclaimed monies under the *Corporations Act 2001*; and
  - a decrease of \$0.3 billion for the wind down of deposit and wholesale funding fees administered by the Department of the Treasury.
- increase of \$0.3 billion in dividend income primarily from collective investment vehicles, particularly private equity funds and infrastructure funds in the Future Fund investment portfolio;
  - decrease of \$0.1 billion in other revenue primarily driven by the decrease in revenue from unclaimed superannuation accounts mainly as a result of the 2012-13 changes to the operation of lost superannuation account provisions; and
  - a decrease of \$0.2 billion in interest revenue, including: a \$0.1 billion reduction in realised gains on the Australian Government Nation Building Funds; a reduction of \$0.1 billion interest from the Future Fund Management Agency (Future Fund) portfolio, and a \$0.2 billion decrease in interest from residential mortgage backed securities investments held by the Australian Office of Financial Management (AOFM). These decreases were partially offset by a \$0.3 billion increase primarily in Australian dollar securities held by the Reserve Bank of Australia (RBA).

## Australian Government expenses

Chart 6 below shows the composition and the trend for expenses since 2007-08.



The Australian Government's total expenses for the year ended on 30 June 2014 were \$419.4 billion. The composition of expenses is shown in Chart 7 below.



**Table 6: Expenses**

	2013-14	2012-13	Change	Change
	\$b	\$b	\$b	%
Gross operating	128.8	124.6	4.2	3.4
Interest	23.9	20.7	3.1	15.2
Current and capital transfers	266.7	248.6	18.1	7.3
<i>Grants</i>	128.3	119.3	9.0	7.6
<i>Personal benefits</i>	125.2	117.2	8.0	6.8
<i>Subsidies</i>	13.2	12.1	1.1	9.3
<b>Total expenses</b>	<b>419.4</b>	<b>393.9</b>	<b>25.5</b>	<b>6.5</b>

The Australian Government's total expenses increased by \$25.5 billion (6.5 per cent) in comparison to 2012-13.

Current and capital transfers increased by \$18.1 billion (7.3 per cent) to \$266.7 billion. The key changes in current and capital transfers from 2012-13 to 2013-14 were as follows:

- an increase of \$8.0 billion in personal benefits expense. This includes a \$3.0 billion increase in the age pension; a \$1.5 billion increase in jobseeker income support; a \$1.1 billion increase in the disability support pension; a \$0.7 billion in carer payments; and a \$0.4 billion increase in the family tax benefit;
- an increase of \$9.0 billion in current and capital grants. The primary contributors to the increase included:
  - a \$5.3 billion increase in grants to State and Territory Governments, which includes: increase of \$3.1 billion in general revenue assistance; \$2.7 billion for road investment; \$0.5 billion increase for rail transport; \$1.2 billion in Government and non-Government school support; \$0.5 billion in assistance to the States for healthcare services. These increases were offset by decreases of \$1.5 billion for natural disaster relief and \$1.0 billion for financial assistance grants to local Governments;
  - a \$0.8 billion increase of grants to non-profit institutions, including: increases of \$0.1 billion in support for the child care system; \$0.6 billion for home support; \$0.1 billion for indigenous land and housing; and \$0.2 billion for indigenous education, well being and community safety; partially offset by a reduction of \$0.1 billion for regional development;
  - a \$0.3 billion increase in grants to local government for road infrastructure;
  - a \$0.5 billion increase in grants to the multi-jurisdictional sector including \$0.3 billion for the Commonwealth grants scheme and higher education support and \$0.3 billion for the University Superannuation Programme.

*Commentary on the financial statements*

- a \$1.7 billion increase in mutually agreed write-downs, primarily penalty and interest charge remissions by the Australian Taxation Office (ATO); and
- a \$0.4 billion increase in other grants across a number of agencies.
- the \$1.1 billion increase in subsidy expenses includes: \$0.4 billion for the stronger uptake of the research and development tax incentive; \$0.3 billion for the fuel tax credits scheme and \$0.4 billion for free permits associated with the carbon price scheme.

Gross operating expenses increased by \$4.2 billion (3.4 per cent) to \$128.8 billion. The key changes in gross operating expenses from 2012-13 to 2013-14 were as follows:

- the supply of goods and services expense increased by \$4.8 billion, including: a \$1.0 billion increase in Defence sustainment and other costs; a \$0.4 billion increase in costs associated with facility management fees for detention centres; a \$0.4 billion increase in claims and medical services processed by Medibank Private; an increase of \$0.6 billion for Medicare services; a \$0.5 billion increase for pharmaceuticals and pharmaceutical services; a \$0.3 billion increase in the cost of Australia Post services; and a \$0.3 billion increase for the NBN. These increases were partially offset by savings across a number of entities;
- wages and salaries increased by \$0.7 billion, primarily due to an increase in separation costs across a number of agencies;
- depreciation and amortisation expenses grew by \$0.3 billion consistent with the increase in non-financial assets; and
- the current service cost of the Australian Government's unfunded superannuation provisions decreased by \$1.8 billion. The current service cost recognises the increase in the superannuation liability that results from employee service in the reporting period. As the calculation of the amount is based on a present value, it is sensitive to changes in the discount rate used for the calculation.<sup>4</sup> The longer the length of service, the greater the impact of discount rate changes. Therefore, the decrease in current service cost was largely in the Public Sector Superannuation Scheme (closed in 2005) and the Military Superannuation and Benefits Scheme.

Superannuation interest expenses increased by \$1.5 billion (22.1 per cent) during 2013-14 to \$8.2 billion. This was largely attributable to a higher discount rate at the beginning of 2013-14 compared to 2012-13.

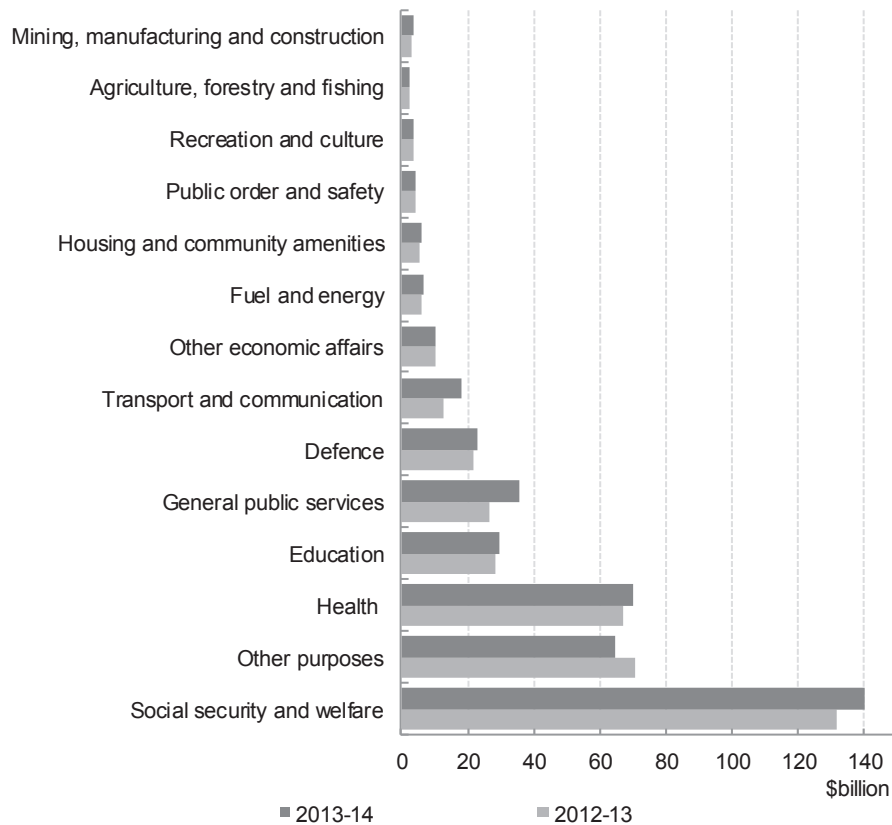
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<sup>4</sup> Under AASB 119, the expenses recognised in the Operating Statement, including the current service cost and the nominal interest on superannuation, are determined with reference to the yield on government bonds (discount rate) at the start of the reporting period (4.3 per cent in 2013-14; 3.1 per cent in 2012-13), with the change in interest rates reflected as an actuarial revaluation in 'Other Economic Flows'.

Interest expenses increased by \$1.7 billion (11.9 per cent) during 2013-14 to \$15.6 billion reflecting the interest associated with the issuance of Treasury Bonds recognised and an increase in exchange settlement balances held with the RBA.

Chart 8 below provides a presentation of total expenses based on how the Australian Government allocated resources across the range of policy areas. The chart highlights the relative cost of each function for 2013-14 compared with the previous year.

**Chart 8: Total expenses by function**



## Australian Government other economic flows

**Table 7: Other economic flows**

	2013-14	2012-13	Change	Change
	\$b	\$b	\$b	%
Net write-downs of assets	(7.4)	(7.4)	0.0	(0.2)
Revaluation of equity investments	0.3	(0.6)	0.9	(146.3)
Net foreign exchange gains/(losses)	(0.2)	1.7	(1.9)	(114.6)
Actuarial revaluation of superannuation	(13.0)	50.4	(63.4)	(125.8)
Revaluations of non-financial assets	1.2	0.6	0.6	92.7
Other	(2.1)	25.0	(27.1)	(108.2)
<b>Total other economic flows</b>	<b>(21.2)</b>	<b>69.8</b>	<b>(90.9)</b>	<b>(130.3)</b>

The Australian Government reported a net loss of \$21.2 billion in other economic flows in 2013-14, a \$90.9 billion change from 2012-13. The \$63.4 billion change in the actuarial revaluation of superannuation primarily relates to discount rate changes. Under the accounting standards, the superannuation liability is calculated using a discount rate based on current long-term government bond rates. Movement in the discount rate can cause significant movements in the valuation of the liability. In 2013-14, the discount rate decreased from 4.3 per cent to 4.1 per cent (increasing the liability and reducing net worth) while in 2012-13, the discount rate increased from 3.1 per cent to 4.3 per cent (reducing the liability and improving net worth). The actuarial assumptions applied in the calculation of the Australian Government's liability are detailed in Note 38.

The major contributor to the 'Other' \$27.1 billion reduction in net worth is the relative change in the market valuation of debt of \$15.2 billion, reflecting movements in interest rates, and a \$7.8 billion change in indexation arrangements for military superannuation.

## Australian Government net acquisition of non-financial assets

**Table 8: Net acquisition of non-financial assets**

	2013-14	2012-13	Change	Change
	\$b	\$b	\$b	%
Purchases of non-financial assets	15.1	11.9	3.2	26.9
<i>less</i> Sale of non-financial assets	0.4	1.8	(1.4)	(77.8)
<i>less</i> Depreciation	7.4	7.2	0.2	2.8
<i>plus</i> Change in inventories and other movements	0.7	1.0	(0.3)	(30.0)
<i>plus</i> Other movements in non-financial assets	1.0	0.6	0.4	66.7
<b>Total net acquisition of non-financial assets</b>	<b>9.0</b>	<b>4.5</b>	<b>4.5</b>	<b>100.0</b>

The Australian Government's net acquisition of non-financial assets showed an increase of \$4.5 billion to \$9.0 billion in 2013-14. This change was reflected in the increase of purchases of non-financial assets, mainly for Defence related acquisitions and the construction of the NBN. The decrease in sales of non-financial assets is reflective of lower than prior year activity for the auction of spectrum licences.



## Balance sheet

The Australian Government's net worth decreased by \$53.8 billion in 2013-14 to produce a closing negative net worth of \$264.3 billion.

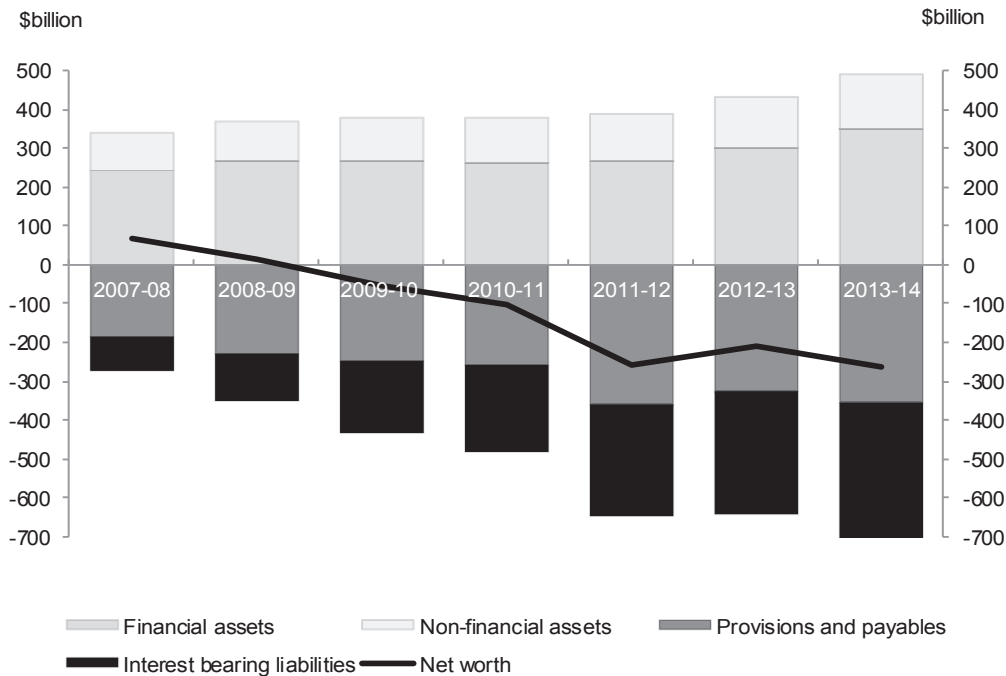
**Table 9: Balance sheet**

	2013-14	2012-13	Change	Change
	\$b	\$b	\$b	%
Financial assets	352.5	303.1	49.4	16.3
Non-financial assets	137.3	127.8	9.5	7.4
<b>Total assets</b>	<b>489.8</b>	<b>430.9</b>	<b>58.9</b>	<b>13.7</b>
Interest bearing liabilities	397.6	315.4	82.2	26.1
Provisions and payables	356.5	326.0	30.5	9.4
<b>Total liabilities</b>	<b>754.1</b>	<b>641.4</b>	<b>112.7</b>	<b>17.6</b>
<b>Net worth</b>	<b>(264.3)</b>	<b>(210.5)</b>	<b>(53.8)</b>	<b>25.6</b>

The decline in net worth was reflected in the \$82.2 billion increase in interest bearing liabilities; an increase of \$30.5 billion in provisions and payables, primarily relating to superannuation; partially offset by an increase in financial assets.

Chart 9 shows the movement and composition of the Australian Government's financial position over the last 7 years.

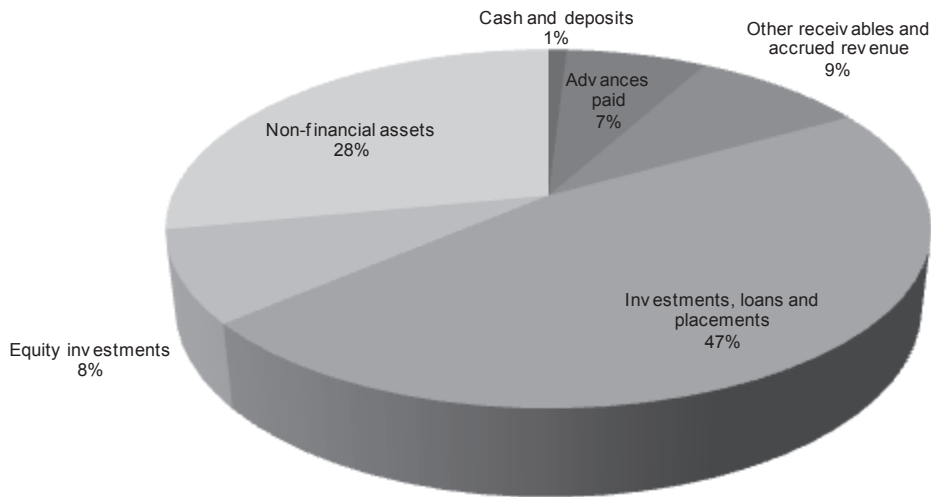
**Chart 9: Australian Government balance sheet**



### Australian Government assets

The Australian Government's total assets as at 30 June 2014 were \$489.8 billion. The composition of assets is shown in Chart 10 below.

**Chart 10: Composition of assets**



Included in the above categories are the following items:

<p><b>Cash and Deposits</b></p> <ul style="list-style-type: none"> <li>- Cash at bank and cash on hand</li> <li>- Short-term deposits (generally less than 3 months)</li> <li>- Fund deposits at call</li> </ul>	<p><b>Advances Paid</b> are loans made for policy purposes rather than for liquidity management, including:</p> <ul style="list-style-type: none"> <li>- Student loans (including HELP);</li> <li>- Loans to State and Territory Governments; and</li> <li>- Subscriptions to international aid organisations.</li> </ul>	<p><b>Investments, Loans and Placements</b></p> <ul style="list-style-type: none"> <li>- Term deposits;</li> <li>- Investment debt securities (including Future Fund and Government Funds);</li> <li>- International Monetary Fund quota; and</li> <li>- Residential mortgage-backed securities.</li> </ul>
<p><b>Other receivables</b></p> <ul style="list-style-type: none"> <li>- Statutory receivables and recoverables;</li> <li>- Trade debtors</li> </ul>	<p><b>Equity investments</b> constitute a financial claim on other entities and include:</p> <ul style="list-style-type: none"> <li>- Investments in public corporations (valued at DCF or net assets);</li> <li>- Future fund equity holdings; and</li> <li>- Investments in international financial institutions.</li> </ul>	<p><b>Non-financial assets</b></p> <ul style="list-style-type: none"> <li>- Land, buildings, plant, infrastructure and equipment;</li> <li>- Investment property;</li> <li>- Heritage and cultural assets;</li> <li>- Biological assets and assets held for sale are non-financial produced assets;</li> <li>- Specialist military equipment;</li> <li>- Intangibles (including software and other produced intangibles);</li> <li>- Inventories; and</li> <li>- Prepayments.</li> </ul>

**Table 10: Australian Government's assets**

	2013-14 \$b	2012-13 \$b	Change \$b	Change %
Financial assets				
Cash and deposits	4.5	4.1	0.5	11.1
Advances paid	34.8	30.1	4.8	15.8
Other receivables and accrued revenue	42.9	42.7	0.2	0.5
Investments, loans and placements	229.8	191.3	38.5	20.1
Equity investments	40.5	34.9	5.6	16.0
Non-financial assets	137.3	127.8	9.5	7.4
<b>Total assets</b>	<b>489.8</b>	<b>430.9</b>	<b>58.9</b>	<b>13.7</b>

The Australian Government's total assets increased by \$58.9 billion (13.7 per cent) since 30 June 2013.

This included a \$49.5 billion (16.3 per cent) increase in financial assets to \$352.5 billion at 30 June 2014, and a \$9.5 billion (7.4 per cent) increase in non-financial assets to \$137.3 billion at 30 June 2014. This continues the trend of recent years where a greater proportion of the Australian Government's assets held are financial assets.

The key movements in financial assets between 30 June 2013 and 30 June 2014 included the following:

- an increase of \$38.5 billion in investments, loans and placements. This included a \$38.9 billion increase in Australian dollar securities and foreign exchange holdings of the RBA and an increase of \$3.3 billion in non-equity investments by the Future Fund. These increases were partially offset by a \$2.4 billion decrease in deposit investments by the AOFM;
- an increase of \$5.6 billion in equity investments. The increase mainly relates to an increased allocation in listed equities and listed managed investment schemes held by the Future Fund; and
- an increase of \$4.8 billion in advances paid. This increase was mainly due to a \$3.6 billion increase in the value of student loans under the HELP scheme and the residual amount is due to an increase in loans receivable across a number of agencies.

The key movements in non-financial assets between 30 June 2013 and 30 June 2014 included the following:

- land at valuation increased by \$0.4 billion;
- a movement of \$1.6 billion for buildings mainly due to the finance lease arrangements for the rollout of the Single Living Environment and Accommodation Precinct (LEAP) project in Defence;

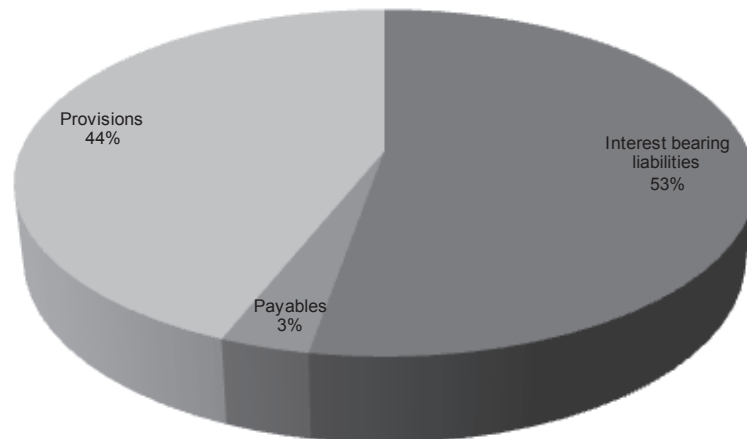
*Commentary on the financial statements*

- an increase of \$4.8 billion in infrastructure, plant and equipment including an increase of \$1.0 billion for specialist military equipment; and \$4.0 billion in network assets for the rollout of the NBN;
- an increase in \$0.3 billion for heritage and cultural assets mainly due to revaluation increments in collections across a number of cultural institutions;
- an increase of \$0.5 billion in intangible assets mainly due to water entitlement acquisitions by the Department of the Environment; and
- an increase of \$0.3 billion for inventory primarily due to an increase in explosive ordnance held by Defence.

**Australian Government liabilities**

The Australia Government's total liabilities were \$754.1 billion as at 30 June 2014. The composition of liabilities is shown in Chart 11 below.

**Chart 11: Composition of liabilities**



Included in the above categories are the following items:

<b>Interest bearing liabilities</b>	<b>Provisions</b>	<b>Payables</b>
<ul style="list-style-type: none"> <li>- Public debt (Treasury bonds, Treasury Notes and Treasury Indexed Bonds);</li> <li>- Bills of exchange and promissory notes issued to international multilateral organisations;</li> <li>- IMF Special Drawing Right Allocation reflecting Australia's cumulative liability to the IMF; and</li> <li>- Finance leases and other loans.</li> </ul>	<ul style="list-style-type: none"> <li>- Australian Government's unfunded superannuation liability;</li> <li>- Annual leave, long service leave liabilities, accrued salaries and wages, separations and redundancies, workers compensation provisions;</li> <li>- Social security, health and education benefit provisions;</li> <li>- Grant provisions for university superannuation, Natural Disaster Relief and Recovery Arrangements and subsidy provisions administered through the tax system;</li> <li>- Provisions for asbestos, decontamination, etc; and</li> <li>- Unearned income, unclaimed monies, outstanding claims and taxation refunds.</li> </ul>	<ul style="list-style-type: none"> <li>- Trade creditors, capital creditors and unsettled investment purchases;</li> <li>- Amounts payable to grant or subsidy recipients at period-end;</li> <li>- Personal benefit payables at period-end;</li> <li>- Unearned income and prepayments received; and</li> <li>- Unclaimed monies and outstanding claims.</li> </ul>

**Table 11: Australian Government's liabilities**

	2013-14	2012-13	Change	Change
	\$b	\$b	\$b	%
Interest bearing liabilities	397.6	315.4	82.2	26.1
Payables	25.0	24.9	0.2	0.6
Provisions	331.5	301.1	30.4	10.1
<b>Total liabilities</b>	<b>754.1</b>	<b>641.4</b>	<b>112.7</b>	<b>17.6</b>

The Australian Government's liabilities have increased by \$112.7 billion (17.6 per cent) since 30 June 2013.

This included a \$82.2 billion (26.1 per cent) increase in interest bearing liabilities to \$397.6 billion at 30 June 2014 and a \$30.6 billion (10.8 per cent) increase in provisions and payables to \$356.6 billion at 30 June 2014.

The decrease in the bond rate was the main contributor to the overall increase in provisions. A number of Australian Government provisions are long-term in nature and, as such, are subject to variations if the discount rate used in calculating the present value of these liabilities changes. The bond rate change was the key determinant of the \$28.3 billion increase in the Australian Government's unfunded superannuation liabilities.

The increase of \$82.2 billion in interest bearing liabilities includes:

- an increase of \$62.5 billion in the issuance volume of Commonwealth Government Securities (CGS) held by the AOFM;

*Commentary on the financial statements*

- an increase of \$18.4 billion in deposits held, including the Reserve Bank of Australia exchange settlement balances;
- an increase of \$2.6 billion in other borrowings which mainly relate to finance leases and right of use licences entered into by NBN Co for its infrastructure assets and premises;
- an increase of \$0.6 billion in loans, primarily bills of exchange & promissory notes issued to the International Monetary Fund by Treasury, partially offset by:
- a decrease of \$2.0 billion in other interest bearing liabilities as a result of the improved performance of derivative contracts by the Future Fund to manage its investment portfolio.

The increase in provisions and payables of \$30.6 billion included:

- an increase of \$28.3 billion in the superannuation liability resulting from actuarial revaluations, in particular a 0.2 percentage point decrease in the Government bond rate used to discount expected future superannuation payments as well as an increase in the indexation arrangements for some military pensions;
- an increase of \$3.8 billion in Australian currency (notes) on issue;
- an increase of \$1.4 billion in other employee liabilities resulting from actuarial adjustments of \$0.7 billion for claims under the *Military Rehabilitation and Compensation Act 2004* and an allowance of \$0.3 billion for separation and redundancy provisions across a number of agencies; and
- an increase of \$0.9 billion in subsidies payable primarily due to claims on hand for various subsidies administered by the ATO.

The above increases in provisions and payables were partially offset by a decrease of \$1.4 billion in supplier payables and a decrease in other provisions of \$3.0 billion mainly relating to a decrease in grants provisions.

## Statement of cash flows

**Table 12: Cash flow**

	2013-14 \$b	2012-13 \$b	Change \$b	Change %
<b>Cash receipts</b>				
Operating activities	375.9	362.9	13.0	3.6
Investing activities in non-financial assets	0.7	1.8	(1.1)	(61.1)
Financing activities	89.4	38.3	51.1	133.4
<b>Total cash receipts</b>	<b>466.0</b>	<b>403.0</b>	<b>63.0</b>	<b>15.6</b>
<b>Cash payments</b>				
Operating activities	403.4	373.2	30.2	8.1
Investing activities in non-financial assets	13.3	11.0	2.3	20.9
Investing activities in financial assets	39.9	13.7	26.2	191.4
Financing activities	9.0	5.1	3.9	76.5
<b>Total cash payments</b>	<b>465.6</b>	<b>403.0</b>	<b>62.6</b>	<b>15.5</b>
<b>Net movement in cash</b>	<b>0.4</b>	<b>0.0</b>	<b>0.4</b>	<b>-</b>
Cash at beginning of the year	4.1	4.0	0.1	2.5
<b>Cash at end of year</b>	<b>4.5</b>	<b>4.0</b>	<b>0.5</b>	<b>12.5</b>
<b>Key fiscal aggregate</b>				
Operating activities	(27.5)	(10.3)	(17.2)	167.0
Investing activities in non-financial assets	(12.6)	(9.2)	(3.4)	37.0
<b>Cash surplus/(deficit)</b>	<b>(40.1)</b>	<b>(19.5)</b>	<b>(20.6)</b>	<b>105.6</b>

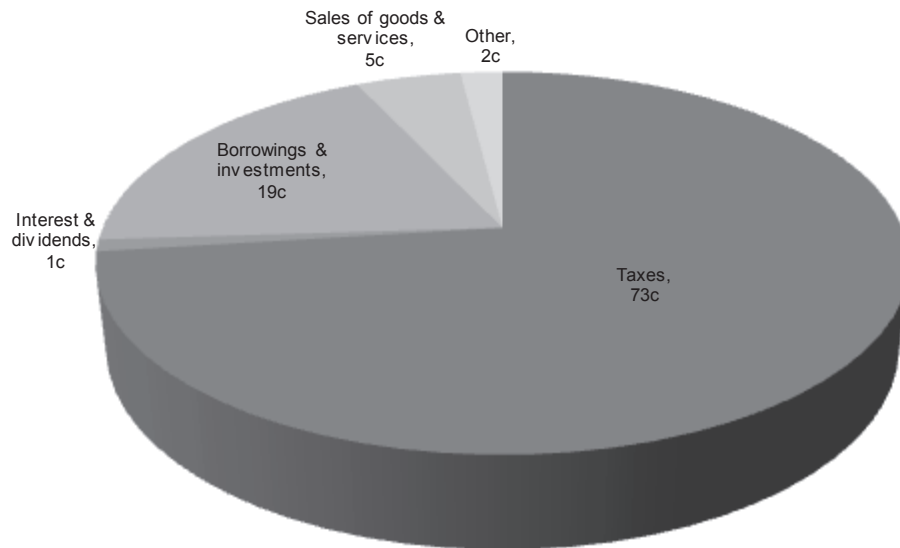
The Australian Government's cash balance was \$4.5 billion at 30 June 2014. In 2013-14 the Australian Government recorded a cash deficit of \$40.1 billion for 2013-14, an increase of \$20.6 billion compared to a cash deficit of \$19.5 billion for 2012-13.<sup>5</sup>

<sup>5</sup> The cash deficit reported above differs to the deficit reported in the *2013-14 Final Budget Outcome* (2013-14 FBO) as the above result is for the 'whole of government', including public corporations whereas the FBO focuses on the outcome for the GGS. In addition, the 2013-14 FBO excludes Future Fund earnings and includes the net acquisition of assets acquired under finance leases and similar arrangements.

### Australian Government cash receipts and payments

The following charts provide a detailed break-down of Australian Government receipts and payments for 2013-14, showing the relative composition of each dollar received and each dollar paid.

**Chart 12: Composition of each dollar of cash received in 2013-14**

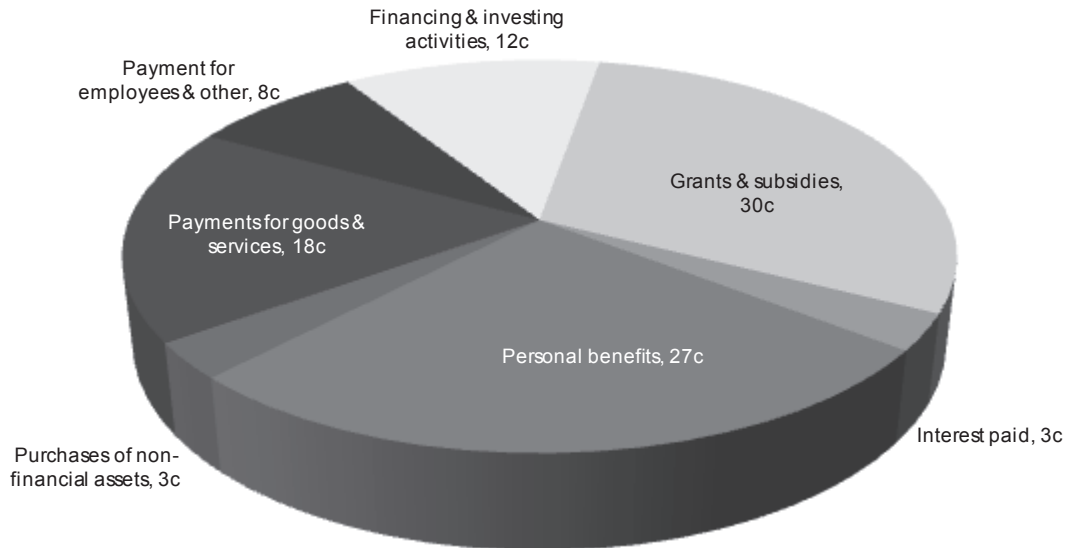


<b>Taxes:</b>	<b>\$338.4 billion</b> (2012-13: \$326.3 billion) (73 cents of every dollar received in 2013-14, 82 cents in 2012-13)
<b>Borrowing and investment:</b>	<b>\$90.2 billion</b> (2012-13: \$40.1 billion) (19 cents of every dollar received in 2013-14, 8 cents in 2012-13)
<b>Sales of goods and services:</b>	<b>\$24.2 billion</b> (2012-13: \$23.1 billion) (5 cents of every dollar received in 2013-14, 6 cents in 2012-13)
<b>Interest and dividends:</b>	<b>\$6.3 billion</b> (2012-13: \$6.7 billion) (1 cent of every dollar received in 2013-14, 2 cents in 2012-13)
<b>Other:</b>	<b>\$7.1 billion</b> (2012-13: \$6.8 billion) (2 cents of every dollar received in 2013-14, 2 cents in 2012-13)

Taxation receipts remain the predominant source of Australian Government receipts with 73 cents of every dollar that the Australian Government receives resulting from tax collections in 2013-14.



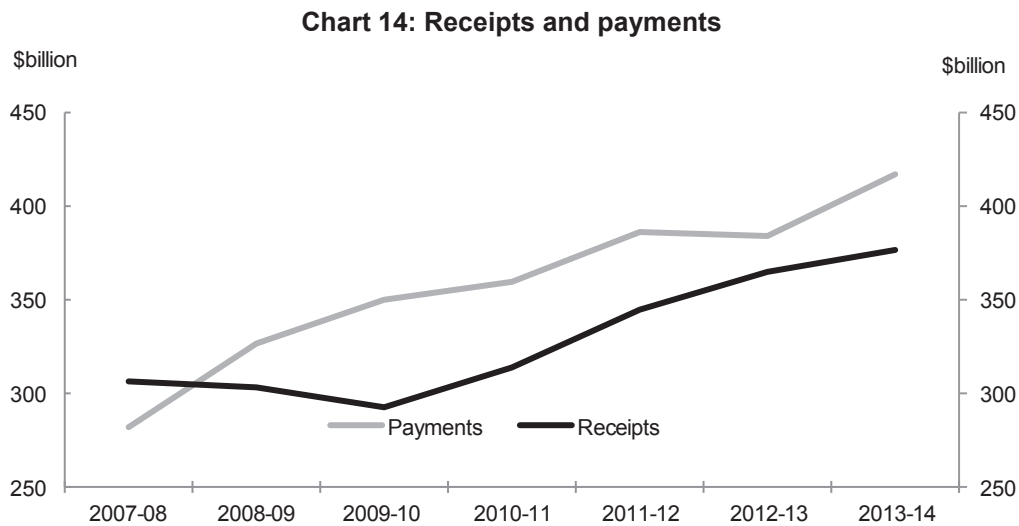
**Chart 13: Composition of each dollar of cash paid in 2013-14**



<b>Grants and subsidies:</b>	<b>\$140.1 billion</b> (2012-13: \$127.6 billion) (30 cents of every dollar paid in 2013-14, 32 cents in 2012-13)
<b>Personal benefits:</b>	<b>\$126.4 billion</b> (2012-13: \$116.6 billion) (27 cents of every dollar paid in 2013-14, 29 cents in 2012-13)
<b>Payments for goods and services:</b>	<b>\$85.4 billion</b> (2012-13: \$81.7 billion) (18 cents of every dollar paid in 2013-14, 20 cents in 2012-13)
<b>Payments for employees and other:</b>	<b>\$37.2 billion</b> (2012-13: \$35.5 billion) (8 cents of every dollar paid in 2013-14, 9 cents in 2012-13)
<b>Purchases of non-financial assets:</b>	<b>\$13.3 billion</b> (2012-13: \$11.0 billion) (3 cents of every dollar paid in 2013-14, 3 cents in 2012-13)
<b>Interest paid:</b>	<b>\$14.6 billion</b> (2012-13: \$11.8 billion) (3 cents of every dollar paid in 2013-14, 3 cents in 2012-13)
<b>Financing and investing activities:</b>	<b>\$48.6 billion</b> (2012-13: \$18.8 billion) (11 cents of every dollar paid in 2013-14, 4 cents in 2012-13)

Grants and subsidies, personal benefits and payments for the supply of goods and services are the main items of expenditure for the government, comprising 75 per cent of all payments.

Chart 14 provides a trend of the Australian Government's cash receipts and cash payments since 2007-08.



### Future commitments

**Table 13: Australian Government — future commitments**

	2013-14 \$b	2012-13 \$b	Change \$b	Change %
Capital commitments	28.5	24.8	3.7	14.9
Other commitments				
Operating leases	20.6	19.3	1.3	6.7
Project commitments	1.2	1.8	(0.6)	(33.3)
Research and development	2.5	1.4	1.1	78.6
Goods and services contracts	8.6	15.8	(7.2)	(45.6)
Grant commitments	96.9	131.9	(35.0)	(26.5)
Other commitments	35.4	36.7	(1.3)	(3.5)
Total other commitments	165.2	206.9	(41.7)	(20.2)
<b>Total commitments</b>	<b>193.7</b>	<b>231.7</b>	<b>(38.0)</b>	<b>(16.4)</b>
less Commitments receivable	4.8	2.0	2.8	136.1
<b>Net commitments</b>	<b>188.9</b>	<b>229.6</b>	<b>(40.8)</b>	<b>(17.8)</b>

The Australian Government is committed to future capital expenditure of \$28.5 billion as at 30 June 2014, an increase of \$3.7 billion since 2012-13. The change is primarily in relation to various collective investment vehicles by the Future Fund, specialist military equipment by Defence and infrastructure, plant and equipment by various agencies.

Other commitments decreased by \$41.7 billion, primarily as a result of the change in grant commitments by \$35.0 billion. The change is largely a result of the timing of

multi-year funding commitments. Funding information for payments to States and Territories can be found in the 2013-14 Budget Papers.

### Contingent liabilities

Contingent liabilities are associated with events that are considered possible but not sufficiently probable (or quantifiable) that they should be included in the Balance Sheet. The Australian Government includes those contingent liabilities that were quantifiable in accordance with accounting standards.

**Table 14: Australian Government — contingent liabilities**

	2013-14 \$b	2012-13 \$b	Change \$b	Change %
<b>Quantifiable contingent liabilities</b>				
Guarantees	15.2	15.2	(0.0)	(0.1)
Indemnities	0.2	0.4	(0.2)	(48.1)
Uncalled shares/capital subscriptions	13.5	13.3	0.2	1.7
Claims for damages/costs	0.2	0.2	0.0	0.0
Other contingencies	5.4	7.3	(1.9)	(26.0)
<b>Total quantifiable contingent liabilities</b>	<b>34.5</b>	<b>36.4</b>	<b>(1.9)</b>	<b>(5.2)</b>

The Australian Government disclosed a total of \$34.5 billion in quantifiable contingent liabilities as at 30 June 2014.

The total of uncalled shares/capital subscriptions comprised the European Bank for Reconstruction and Development (EBRD), the International Bank for Reconstruction and Development (IBRD), the Multilateral Investment Guarantee Agency (MIGA) and the Asian Development Bank (ADB).

The Government has also entered into a contingent bilateral loan with the International Monetary Fund (IMF) to provide up to SDR4.6 billion (A\$7.6 billion as at 30 June 2014) to provide additional financial support for crisis prevention and resolution. It will be drawn upon by the IMF only if needed to supplement the IMF's quota and New Arrangements to Borrow (NAB) resources, and any drawings would be repaid in full with interest. The loan is initially effective for two years and can be extended for up to a further two years.

These loans are administered by the Treasury. Other quantifiable contingencies include claims made through the legal system.

## APPENDIX A

### HISTORICAL INFORMATION

The following table presents the key financial results for the Australian Government from the 2007-08 financial year.<sup>6</sup>

	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
	\$b	\$b	\$b	\$b	\$b	\$b	\$b
<b>OPERATING STATEMENT</b>							
<b>Revenue from transactions</b>							
Taxation revenue	286.0	278.3	268.0	288.8	316.5	334.4	349.1
Non-taxation revenue	29.1	31.5	30.9	33.5	33.9	36.0	37.1
<b>Total revenue</b>	<b>315.1</b>	<b>309.8</b>	<b>298.9</b>	<b>322.3</b>	<b>350.4</b>	<b>370.4</b>	<b>386.1</b>
<b>Expenses from transactions</b>							
Gross operating expenses	88.3	95.9	103.6	110.9	119.4	124.6	128.8
Current and capital transfers	189.3	225.7	232.5	238.4	249.3	248.6	266.7
Superannuation interest expense	6.0	6.7	6.7	7.0	7.4	6.7	8.2
Interest expenses	5.9	6.4	7.9	11.7	13.8	14.0	15.6
<b>Total expenses</b>	<b>289.5</b>	<b>334.8</b>	<b>350.7</b>	<b>368.0</b>	<b>389.8</b>	<b>393.9</b>	<b>419.4</b>
<b>Net operating balance</b>	<b>25.6</b>	<b>(25.0)</b>	<b>(51.8)</b>	<b>(45.7)</b>	<b>(39.4)</b>	<b>(23.4)</b>	<b>(33.3)</b>
Net acquisition of non-financial assets	3.3	5.0	7.6	6.7	6.9	4.5	9.0
<b>Fiscal balance</b>	<b>22.3</b>	<b>(30.0)</b>	<b>(59.4)</b>	<b>(52.4)</b>	<b>(46.3)</b>	<b>(28.0)</b>	<b>(42.2)</b>
<b>BALANCE SHEET</b>							
<b>Assets</b>							
Financial assets	244.1	266.9	268.3	261.7	268.2	303.1	352.5
Non-financial assets	95.2	100.3	109.0	115.3	122.4	127.8	137.3
<b>Total assets</b>	<b>339.2</b>	<b>367.2</b>	<b>377.2</b>	<b>377.0</b>	<b>390.6</b>	<b>430.9</b>	<b>489.8</b>
<b>Liabilities</b>							
Interest bearing liabilities	86.2	124.2	183.8	222.0	287.7	315.4	397.6
Provisions and payables	185.4	227.5	247.4	258.2	359.8	325.9	356.5
<b>Total liabilities</b>	<b>271.5</b>	<b>351.7</b>	<b>431.2</b>	<b>480.2</b>	<b>647.4</b>	<b>641.4</b>	<b>754.1</b>
<b>Net worth</b>	<b>67.7</b>	<b>15.5</b>	<b>(53.9)</b>	<b>(103.1)</b>	<b>(256.9)</b>	<b>(210.5)</b>	<b>(264.3)</b>
<b>CASHFLOW STATEMENT</b>							
Operating activities	32.6	(12.7)	(44.3)	(33.7)	(29.6)	(10.3)	(27.5)
Investing activities in non-financial assets	(8.0)	(10.2)	(12.5)	(11.5)	(12.5)	(9.2)	(12.6)
Investing activities in financial assets	(43.8)	(26.7)	6.4	(0.9)	(6.9)	(13.7)	(39.9)
Financing activities	18.9	49.4	51.9	46.0	47.5	33.2	80.5
<b>Net movement in cash</b>	<b>(0.3)</b>	<b>(0.2)</b>	<b>1.6</b>	<b>(0.1)</b>	<b>(1.4)</b>	<b>0.0</b>	<b>0.5</b>

<sup>6</sup> Key financial results have been presented from 2007-08 following the introduction of the AASB 1049. The 2007-08 outcome was restated consistent with this standard in the 2008-09 CFS.

## APPENDIX B

### LINKS TO OTHER PUBLICATIONS PUBLISHED BY THE AUSTRALIAN GOVERNMENT ABOUT ITS PROJECTED AND ACTUAL FINANCIAL POSITION FOR THE 2013-14 FINANCIAL YEAR

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

#### 2013-14 Final Budget Outcome

The *Final Budget Outcome 2013-14* (FBO) has been prepared in a manner consistent with the *Charter of Budget Honesty Act 1998* (the Charter). The Charter requires that, inter alia, the Government provide a final budget outcome report no later than three months after the end of the financial year. Consistent with these requirements, the FBO encompasses Australian Government general government sector fiscal outcomes for the 2013-14 financial year and is based on external reporting standards.

The FBO is available on the Australian Government website at: <http://budget.gov.au/2013-14/content/fbo/html/index.htm>.

#### Australian Government Monthly Financial Statements

The Australian Government Monthly Financial Statements have been prepared on a basis consistent with the Budget as required under section 54 of the *Financial Management and Accountability Act 1997*. The statements are prepared in accordance with the Australian Accounting Standards Board 1049 – *Whole of Government and General Government Sector Financial Reporting* (AASB 1049).

The Australian Monthly Financial Statements are available on the Department of Finance website and the Minister for Finance website at: Commonwealth Monthly Financial Statements | Department of Finance and <http://www.financeminister.gov.au/media/2014/index.html>.

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

The *Budget Strategy and Outlook – Budget Paper – 2013-14*, the *Mid-Year Economic and Fiscal Outlook 2014-15* and the *Budget Strategy and Outlook – Budget Paper – 2014-15* have been prepared in accordance with the *Charter of Budget Honesty Act 1998*.

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

**Tax Expenditures Statement 2013**

The Tax Expenditures Statement (TES) provides details of concessions, benefits, incentives and charges provided through the tax system (tax expenditures) to taxpayers by the Australian Government. The publication of information is on The Treasury website at: <http://www.treasury.gov.au/Treasury%20Home/PublicationsAndMedia/Publications/2014/TES%202013>.

**CONSOLIDATED FINANCIAL STATEMENTS, INCLUDING  
THE AUSTRALIAN GOVERNMENT (WHOLE OF  
GOVERNMENT) AND GENERAL GOVERNMENT SECTOR  
FINANCIAL REPORTS**





## INDEPENDENT AUDITOR'S REPORT



Auditor-General for Australia



### INDEPENDENT AUDITOR'S REPORT

To the Minister for Finance

#### Report on the Financial Statements

##### *Scope*

I have audited the accompanying Consolidated Financial Statements for the year-ended 30 June 2014, which include the Australian Government (Whole-of-Government) Financial Report and the Australian Government General Government Sector Financial Report.

The Consolidated Financial Statements comprise the:

- Statement of Compliance by the Minister for Finance;
- Australian Government operating statement and Australian Government operating statement by sector – including General Government Sector Financial Report;
- Australian Government balance sheet and Australian Government balance sheet by sector – including General Government Sector Financial Report;
- Australian Government cash flow statement and Australian Government cash flow statement by sector – including General Government Sector Financial Report;
- Australian Government statement of changes in equity and Australian Government statement of changes in equity – General Government Sector; and
- Notes to the financial statements, including a statement of significant accounting policies.

My audit does not provide assurance on the assumptions and accounting policies used in formulating the General Government Sector “original budget” and “revised budget” figures disclosed in Note 44 to the Consolidated Financial Statements.

##### *Minister's Responsibility for the Financial Statements*

The Minister for Finance is responsible, pursuant to section 55 of the *Financial Management and Accountability Act 1997*, for preparing Consolidated Financial Statements of the Australian Government that give a true and fair view of the financial position, operations and cash flows of the Australian Government. The financial statements are a general purpose financial report, required to be prepared in accordance

## *Consolidated financial statements*

with Australian Accounting Standards (which include the Australian Accounting Interpretations). This responsibility includes establishing and maintaining internal controls as is necessary to enable the preparation of financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

My responsibility is to express an opinion on the financial statements based on my audit. I have conducted my audit in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards. These auditing standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### ***Independence***

In conducting my audit, I have followed the independence requirements of the Australian National Audit Office, which incorporate the requirements of the Australian accounting profession.

### ***Opinion***

In my opinion, the Australian Government (Whole-of-Government) Financial Report and the Australian Government General Government Sector Financial Report, as included in the Consolidated Financial Statements:

- (a) have been prepared in accordance with the section 55 of the *Financial Management and Accountability Act 1997*, including the Australian Accounting Standards (including the Australian Accounting Interpretations); and
- (b) give a true and fair view of the Australian Government's and General Government Sector's financial position as at 30 June 2014 and of their financial performance and cash flows for the year then ended.

**Report on Other Legal and Regulatory Requirements**

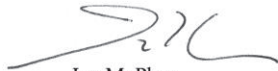
Note 1.27 *Compliance with the Constitution* discloses information on the Australian Government's review of its exposure to risks of not complying with statutory conditions on payments from special appropriations and special accounts, and annual appropriations which fund statutory payments. Non-compliance with statutory conditions may lead to a contravention of section 83 of the Constitution, which requires that no money shall be drawn from the Treasury of the Commonwealth except under an appropriation made by law.

As disclosed in Note 1.27, payments were made in 2013–14:

- in breach of section 83 of the Constitution, totalling \$3.3 million across ten agencies; and
- potentially in breach of section 83 of the Constitution, totalling \$1 024.5 million across eight agencies.

As disclosed in Note 1.27 *Compliance with the Constitution*, during the financial year, the High Court held in *Williams v Commonwealth [2014] HCA 23* that payments made under the National Schools Chaplaincy and Student Welfare program were invalid on the ground that they were not supported by a Commonwealth constitutional head of power. The debts arising as a consequence of that decision were waived under section 34(1)(a) of the *Financial Management and Accountability Act 1997*. The total waived by the Minister for Finance was \$156.1 million.

Australian National Audit Office



Ian McPhee

Auditor-General

Canberra

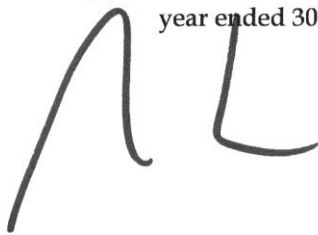
20 November 2014

## STATEMENT OF COMPLIANCE

The consolidated financial statements of the Australian Government are required by section 55 of the *Financial Management and Accountability Act 1997*.

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

- (a) have been prepared in accordance with the regulations of the *Financial Management and Accountability Act 1997*, and applicable Australian Accounting Standards and Consensus Views of the Australian Accounting Standards Board; and
- (b) give a true and fair view of the:
  - (i) Australian Government's financial position as at 30 June 2014; and
  - (ii) results of the Australian Government's operations and cash flows for the year ended 30 June 2014.



Senator the Hon Mathias Cormann  
Minister for Finance

20 November 2014

**Australian Government operating statement**  
for the year ended 30 June 2014

	Note	2014 \$m	2013 \$m
<b>Revenue from transactions</b>			
Taxation revenue	2	349,069	334,430
Sales of goods and services	3	23,256	22,127
Interest income	4	4,466	4,658
Dividend income	4	2,475	2,175
Other	5	6,883	7,057
<b>Total revenue</b>		<b>386,149</b>	<b>370,447</b>
<b>Expenses from transactions</b>			
<i>Gross operating expenses</i>			
Wages and salaries	6	22,868	22,207
Superannuation	6	6,923	8,760
Depreciation and amortisation	7	7,422	7,162
Supply of goods and services	8	84,535	79,693
Other operating expenses	6	7,094	6,794
<i>Total gross operating expenses</i>		<i>128,842</i>	<i>124,616</i>
Superannuation interest expense	6	8,214	6,729
Interest expense	9	15,646	13,982
Current transfers			
Current grants	10	115,910	110,590
Subsidy expenses		13,197	12,076
Personal benefits		125,184	117,221
<i>Total current transfers</i>		<i>254,291</i>	<i>239,887</i>
Capital transfers			
Mutually agreed write-downs	10	2,477	794
Other capital grants	10	9,932	7,888
<i>Total capital transfers</i>		<i>12,409</i>	<i>8,682</i>
<b>Total expenses</b>	11	<b>419,402</b>	<b>393,896</b>
<b>Net operating balance</b>		<b>(33,253)</b>	<b>(23,449)</b>
<b>Other economic flows</b>			
Net write-downs of assets (including bad and doubtful debts)	12	(7,378)	(7,390)
Assets recognised for the first time		313	388
Net gain/(loss) from the sale of assets	13	6,325	1,076
Net foreign exchange gains/(losses)	14	(245)	1,678
Net swap interest received	15	(480)	45
Other gains/(losses)	16	(8,183)	23,885
Amortisation of non-produced assets		(133)	(95)
Share of net result from associates and joint ventures accounted for using the equity method		65	37
<b>Operating result</b>		<b>(42,969)</b>	<b>(3,825)</b>
<b>Other economic flows - Other non-owner movements in equity</b>			
<b>Items that will not be reclassified to operating result</b>			
Revaluation of non-financial assets	33	1,235	641
Actuarial revaluations of superannuation		(13,014)	50,424
Other economic revaluations		41	(303)
<b>Items that may be reclassified subsequently to operating result</b>			
Revaluation of equity investments	33	282	(609)
<b>Comprehensive result - Total change in net worth</b>		<b>(54,425)</b>	<b>46,328</b>
<b>Net operating balance</b>		<b>(33,253)</b>	<b>(23,449)</b>
<b>less Net acquisition of non-financial assets</b>			
Purchases of non-financial assets		15,144	11,858
less Sales of non-financial assets		444	1,839
less Depreciation		7,422	7,162
plus Change in inventories		721	1,005
plus Other movements in non-financial assets		989	649
<b>Total net acquisition of non-financial assets</b>		<b>8,988</b>	<b>4,511</b>
<b>Fiscal balance (Net lending/borrowing)</b>		<b>(42,241)</b>	<b>(27,960)</b>

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

Consolidated financial statements

**Australian Government balance sheet**  
as at 30 June 2014

	Note	2014 \$m	2013 \$m
<b>Assets</b>			
Financial assets			
Cash and deposits	34B	4,514	4,062
Advances paid	18	34,834	30,075
Other receivables and accrued revenue	18	42,933	42,734
Investments, loans and placements	19	229,776	191,300
Equity investments	20	40,477	34,905
<b>Total financial assets</b>		<b>352,534</b>	<b>303,076</b>
Non-financial assets			
Land	21	9,846	9,440
Buildings	21	27,381	25,742
Plant, equipment and infrastructure	21	66,183	61,375
Intangibles	22	8,321	7,822
Investment property	21	375	368
Inventories	23	8,371	8,038
Biological assets	24	36	33
Heritage and cultural assets	21	10,825	10,547
Assets held for sale	24	143	213
Other non-financial assets	24	5,781	4,224
<b>Total non-financial assets</b>		<b>137,262</b>	<b>127,802</b>
<b>Total assets</b>	25	<b>489,796</b>	<b>430,878</b>
<b>Liabilities</b>			
Interest bearing liabilities			
Deposits held	26	24,588	6,124
Government securities	27	346,616	284,160
Loans	28	8,464	7,831
Other borrowings	29	4,990	2,361
Other interest bearing liabilities	30	12,934	14,948
<b>Total interest bearing liabilities</b>		<b>397,592</b>	<b>315,424</b>
Provisions and payables			
Superannuation liability	31	221,948	193,694
Other employee liabilities	31	18,720	17,350
Suppliers payable	32	6,146	7,586
Personal benefits payable	32	5,607	5,699
Subsidies payable	32	4,482	3,580
Grants payable	32	3,355	3,355
Australian currency on issue	32	60,778	56,943
Other payables	32	5,432	4,648
Other provisions	32	30,050	33,082
<b>Total provisions and payables</b>		<b>356,518</b>	<b>325,937</b>
<b>Total liabilities</b>		<b>754,110</b>	<b>641,361</b>
<b>Net worth</b>			
Accumulated results		(319,964)	(259,278)
Reserves		55,650	48,795
Minority interests		-	-
<b>Net worth</b>		<b>(264,314)</b>	<b>(210,483)</b>
Current liabilities		108,980	81,153
Non-current liabilities		645,130	560,208
<b>Total liabilities by maturity</b>		<b>754,110</b>	<b>641,361</b>
Current assets		297,008	246,320
Non-current assets		192,788	184,558
<b>Total assets by maturity</b>		<b>489,796</b>	<b>430,878</b>

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



**Australian Government cash flow statement**  
for the year ended 30 June 2014

	Note	2014 \$m	2013 \$m
<b>OPERATING ACTIVITIES</b>			
<b>Cash received</b>			
Taxes received		338,372	326,284
Receipts from sales of goods and services		24,208	23,078
Interest receipts		4,222	4,620
Dividend receipts		2,048	2,088
Other receipts		7,082	6,828
<b>Total cash received</b>		<b>375,932</b>	<b>362,898</b>
<b>Cash used</b>			
Payments for employees		(30,063)	(28,895)
Payments for goods and services		(85,429)	(81,661)
Grants and subsidies paid		(140,092)	(127,580)
Interest paid		(14,308)	(11,835)
Personal benefits		(126,367)	(116,629)
Other payments		(7,153)	(6,580)
<b>Total cash used</b>		<b>(403,412)</b>	<b>(373,180)</b>
<b>Net cash flows from operating activities</b>	34A	<b>(27,480)</b>	<b>(10,282)</b>
<b>INVESTING ACTIVITIES</b>			
<b>Cash flows from investments in non-financial assets</b>			
Sales of non-financial assets		719	1,780
Purchases of non-financial assets		(13,337)	(10,953)
<b>Net cash flows from investments in non-financial assets</b>		<b>(12,618)</b>	<b>(9,173)</b>
<b>Cash flows from investments in financial assets for policy purposes</b>			
Net advances repaid/(paid)		(6,429)	(4,521)
<b>Net cash flows from investments in financial assets for policy purposes</b>		<b>(6,429)</b>	<b>(4,521)</b>
<b>Cash flows from investments in financial assets for liquidity purposes</b>			
Decrease/(Increase) in investments		(33,504)	(9,169)
<b>Net cash flows from investments in financial assets for liquidity purposes</b>		<b>(33,504)</b>	<b>(9,169)</b>
<b>Net cash from/(used by) investing activities</b>		<b>(52,551)</b>	<b>(22,863)</b>
<b>FINANCING ACTIVITIES</b>			
<b>Cash flows from financing activities</b>			
<b>Cash received</b>			
Borrowings		87,529	36,545
Other financing		1,919	1,744
<b>Total cash received</b>		<b>89,448</b>	<b>38,289</b>
<b>Cash used</b>			
Other financing		(8,965)	(5,102)
<b>Total cash used</b>		<b>(8,965)</b>	<b>(5,102)</b>
<b>Net cash flows from financing activities</b>		<b>80,483</b>	<b>33,187</b>
<b>Net (decrease)/increase in cash held</b>		<b>452</b>	<b>42</b>
<b>Cash at beginning of year</b>		4,062	4,020
<b>Cash at end of year</b>	34B	<b>4,514</b>	<b>4,062</b>
<b>Key fiscal aggregate</b>			
Net cash flows from operating activities		(27,480)	(10,282)
Net cash flows from investments in non-financial assets		(12,618)	(9,173)
<b>Cash surplus/(deficit)</b>		<b>(40,098)</b>	<b>(19,455)</b>
Finance leases and similar arrangements		(2,662)	(1,388)
<b>GFS cash surplus/(deficit)</b>		<b>(42,760)</b>	<b>(20,843)</b>

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

**Australian Government statement of changes in equity**

as at 30 June 2014

Item	Reserves							Total \$m
	Accumulated results \$m	Asset revaluation reserve \$m	Foreign currency translation reserve \$m	Investments reserve \$m	Statutory funds reserves \$m	Other reserves \$m	Total reserves \$m	
Opening balance as at 1 July 2013	(259,278)	33,828	(155)	13,971	(3,248)	4,399	48,795	(210,483)
Non-material changes in accounting policy and errors	506	16	(1)	29	-	44	88	594
Adjusted opening balance as at 1 July 2013	(258,772)	33,844	(156)	14,000	(3,248)	4,443	48,883	(209,889)
Comprehensive result - Total change in net worth	(53,835)	1,461	(166)	(1,993)	3	105	(590)	(54,425)
Transfers to/(from)/between reserves	(7,357)	37	-	(982)	8,799	(497)	7,357	-
<b>Equity as at 30 June 2014</b>	<b>(319,964)</b>	<b>35,342</b>	<b>(322)</b>	<b>11,025</b>	<b>5,554</b>	<b>4,051</b>	<b>55,650</b>	<b>(264,314)</b>
/less: Minority interests	-	-	-	-	-	-	-	-
<b>Attributable to the Australian Government</b>	<b>(319,964)</b>	<b>35,342</b>	<b>(322)</b>	<b>11,025</b>	<b>5,554</b>	<b>4,051</b>	<b>55,650</b>	<b>(264,314)</b>

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



**Australian Government statement of changes in equity (continued)**  
as at 30 June 2013

Item	Reserves							Total \$m
	Accumulated results \$m	Asset revaluation reserve \$m	Foreign currency translation reserve \$m	Investments reserve \$m	Statutory funds \$m	Other reserves \$m	Total reserves \$m	
Opening balance as at 1 July 2012	(301,785)	33,985	(158)	13,977	(3,693)	814	44,925	<b>(256,860)</b>
Changes in accounting policy and errors	159	(119)	-	2	-	7	(110)	<b>49</b>
Adjusted opening balance as at 1 July 2012	(301,626)	33,866	(158)	13,979	(3,693)	821	44,815	<b>(256,811)</b>
Comprehensive result - Total change in net worth	46,648	(40)	3	(8)	(143)	(132)	(320)	<b>46,328</b>
Transfers to/(from)/between reserves	(4,300)	2	-	-	588	3,710	4,300	<b>-</b>
<b>Net worth as at 30 June 2013</b>	<b>(259,278)</b>	<b>33,828</b>	<b>(155)</b>	<b>13,971</b>	<b>(3,248)</b>	<b>4,399</b>	<b>48,795</b>	<b>(210,483)</b>
less: Minority interests	-	-	-	-	-	-	-	<b>-</b>
<b>Attributable to the Australian Government</b>	<b>(259,278)</b>	<b>33,828</b>	<b>(155)</b>	<b>13,971</b>	<b>(3,248)</b>	<b>4,399</b>	<b>48,795</b>	<b>(210,483)</b>

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



## **SECTOR STATEMENTS**

**Australian Government operating statement by sector — including General Government Sector Financial Report**  
for the year ended 30 June 2014

Note	General Government		Public non-financial corporations		Public financial corporations		Eliminations and netting(a)		Australian Government	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>Revenue from transactions</b>										
Taxation revenue	349,208	334,542	-	-	-	-	(139)	(112)	349,069	334,430
Sales of goods and services	8,575	8,886	9,389	8,693	6,713	6,140	(1,421)	(1,592)	23,256	22,127
Interest income	3,339	3,644	66	85	1,981	1,842	(920)	(913)	4,466	4,658
Dividend income	4,105	3,079	-	-	64	70	(1,694)	(974)	2,475	2,175
Other	6,843	7,009	81	156	8,999	190	(9,040)	(298)	6,883	7,057
<b>Total revenue</b>	<b>372,070</b>	<b>357,160</b>	<b>9,536</b>	<b>8,934</b>	<b>17,757</b>	<b>8,242</b>	<b>(13,214)</b>	<b>(3,889)</b>	<b>386,149</b>	<b>370,447</b>
<b>Expenses from transactions</b>										
<i>Gross operating expenses</i>										
Wages and salaries	18,823	18,486	3,548	3,232	498	490	(1)	(1)	22,868	22,207
Superannuation	6,372	8,403	474	260	91	109	(14)	(12)	6,923	8,760
Depreciation and amortisation	6,340	6,397	998	688	83	76	1	1	7,422	7,162
Supply of goods and services	75,134	71,594	4,835	4,257	5,988	5,438	(1,422)	(1,596)	84,535	79,693
Other operating expenses	6,017	5,874	681	538	399	384	(3)	(2)	7,094	6,794
<b>Total gross operating expenses</b>	<b>112,666</b>	<b>110,754</b>	<b>10,536</b>	<b>8,975</b>	<b>7,059</b>	<b>6,497</b>	<b>(1,439)</b>	<b>(1,610)</b>	<b>128,842</b>	<b>124,616</b>
Superannuation interest expense	8,214	6,729	-	-	-	-	-	-	8,214	6,729
Interest expenses	15,050	13,947	363	166	1,154	782	(921)	(913)	15,646	13,982
Current transfers										
Current grants	115,960	110,699	-	-	-	-	(50)	(109)	115,910	110,590
Subsidy expenses	13,368	12,247	-	-	-	-	(171)	(171)	13,197	12,076
Personal benefits	125,184	117,221	-	-	-	-	-	-	125,184	117,221
Tax expenses	-	-	35	(17)	88	82	(123)	(65)	-	-
<b>Total current transfers</b>	<b>254,512</b>	<b>240,167</b>	<b>35</b>	<b>(17)</b>	<b>88</b>	<b>82</b>	<b>(344)</b>	<b>(345)</b>	<b>254,291</b>	<b>239,887</b>
Capital transfers										
Mutually agreed write-downs	2,627	794	-	-	-	-	(150)	-	2,477	794
Other capital grants	18,732	7,888	-	-	-	-	(8,800)	-	9,932	7,888
<b>Total capital transfers</b>	<b>21,359</b>	<b>8,682</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(8,950)</b>	<b>-</b>	<b>12,409</b>	<b>8,682</b>
<b>Total expenses</b>	<b>411,821</b>	<b>380,279</b>	<b>10,934</b>	<b>9,124</b>	<b>8,301</b>	<b>7,361</b>	<b>(11,654)</b>	<b>(2,868)</b>	<b>419,402</b>	<b>393,896</b>
<b>Net operating balance</b>	<b>(39,751)</b>	<b>(23,119)</b>	<b>(1,398)</b>	<b>(190)</b>	<b>9,456</b>	<b>881</b>	<b>(1,560)</b>	<b>(1,021)</b>	<b>(33,253)</b>	<b>(23,449)</b>

(a) The eliminations and netting column includes adjustments resulting from the elimination of inter-sector transactions and the netting of gains and losses from asset sales and foreign currency transactions.

**Australian Government operating statement by sector — including General Government Sector Financial Report (continued)**  
for the year ended 30 June 2014

Note	General government	Public non-financial corporations		Public financial corporations		Eliminations and netting(a)		Australian Government	
		2014 \$m	2013 \$m	2014 \$m	2013 \$m	2014 \$m	2013 \$m	2014 \$m	2013 \$m
<b>Other economic flows - included in operating result</b>									
Net write-downs of assets (including bad and doubtful debts)	12	(7,221)	(6,800)	(66)	(591)	(104)	(14)	13	15
Assets recognised for the first time		310	388	-	-	2	1	1	(1)
Net gain/(loss) from the sale of assets	13	6,093	1,339	197	46	34	(309)	1	-
Net foreign exchange gains	14	(402)	(2,284)	8	11	149	3,951	-	-
Net swap interest received	15	(524)	16	11	4	33	25	-	-
Other gains/(losses)	16	(8,322)	23,689	14	14	124	182	1	-
Amortisation of non-produced assets		(64)	(31)	(60)	(54)	(10)	(11)	1	1
Share of net result from associates and joint ventures accounted for using the equity method		64	37	-	-	-	-	1	-
<b>Operating result</b>		<b>(49,817)</b>	<b>(6,765)</b>	<b>(1,294)</b>	<b>(760)</b>	<b>9,684</b>	<b>4,706</b>	<b>(1,542)</b>	<b>(1,006)</b>
<b>Other economic flows - Other non-owner movements in equity items that will not be reclassified to operating result</b>									
Revaluation of non-financial assets	33	1,158	559	63	67	14	15	-	-
Actuarial revaluations of superannuation		(13,233)	50,122	220	301	(1)	1	-	-
Other economic revaluations		(58)	(48)	(94)	(108)	157	(300)	36	153
<b>Items that may be reclassified subsequently to operating result</b>									
Revaluation of equity	33	7,679	1,437	-	-	262	(682)	(7,659)	(1,364)
<b>Comprehensive result - Total change in net worth before transactions with owners in their capacity as owners</b>		<b>(54,271)</b>	<b>45,305</b>	<b>(1,105)</b>	<b>(500)</b>	<b>10,116</b>	<b>3,740</b>	<b>(9,165)</b>	<b>(2,217)</b>
<b>Net operating balance less Net acquisition of non-financial assets</b>		<b>(39,751)</b>	<b>(23,119)</b>	<b>(1,398)</b>	<b>(190)</b>	<b>9,456</b>	<b>881</b>	<b>(1,560)</b>	<b>(1,021)</b>
Purchases of non-financial assets		9,613	8,046	4,726	3,787	805	25	-	-
less Sales of non-financial assets		241	1,729	197	109	5	1	1	-
less Depreciation		6,341	6,398	998	688	84	76	(1)	-
plus Change in inventories		704	1,007	14	11	2	(12)	1	(1)
plus Other movements in non-financial assets		115	62	875	585	(1)	3	-	(1)
<b>Total net acquisition of non-financial assets less Net lending/borrowing</b>		<b>3,850</b>	<b>988</b>	<b>4,420</b>	<b>3,586</b>	<b>717</b>	<b>(61)</b>	<b>1</b>	<b>(2)</b>
<b>Fiscal balance (Net lending/borrowing)</b>		<b>(43,601)</b>	<b>(24,107)</b>	<b>(5,818)</b>	<b>(3,776)</b>	<b>8,739</b>	<b>942</b>	<b>(1,561)</b>	<b>(1,019)</b>

(a) The eliminations and netting column includes adjustments resulting from the elimination of inter-sector transactions and the netting of gains and losses from asset sales and foreign currency transactions.

**Australian Government balance sheet by sector — including General Government Sector Financial Report**  
as at 30 June 2014

	Note	General Government		Public non-financial corporations		Public financial corporations		Eliminations and netting(a)		Australian Government	
		2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
		\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>Assets</b>											
Financial assets											
Cash and deposits	34B	3,844	2,113	1,380	891	1,030	1,095	(1,740)	(37)	4,514	4,062
Advances paid	18	34,040	29,373	8	14	1,851	1,759	(1,065)	(1,071)	34,834	30,075
Other receivables and accrued revenue	18	42,629	41,626	1,172	1,334	573	557	(1,441)	(783)	42,933	42,734
Investments, loans and placements	19	117,611	111,097	415	1,001	143,954	101,037	(32,204)	(21,835)	229,776	191,300
Equity investments	20	75,576	59,033	9	11	638	740	(35,746)	(24,879)	40,477	34,905
<b>Total financial assets</b>		<b>273,700</b>	<b>243,242</b>	<b>2,984</b>	<b>3,251</b>	<b>148,046</b>	<b>105,188</b>	<b>(72,196)</b>	<b>(48,605)</b>	<b>352,534</b>	<b>303,076</b>
Non-financial assets											
Land	21	9,331	8,917	366	373	149	149	-	1	9,846	9,440
Buildings	21	24,723	23,500	2,374	1,972	284	270	-	-	27,381	25,742
Plant, equipment and infrastructure	21	54,294	52,898	11,613	8,268	275	209	1	-	66,183	61,375
Intangibles	22	6,137	5,636	1,921	1,826	263	360	-	-	8,321	7,822
Investment property	21	183	195	192	173	-	-	-	-	375	368
Inventories	23	8,253	7,926	106	101	11	9	1	2	8,371	8,038
Biological assets	24	36	33	-	-	-	-	-	-	36	33
Heritage and cultural assets	21	10,825	10,547	-	-	-	-	-	-	10,825	10,547
Assets held for sale	24	95	110	48	103	-	-	-	-	143	213
Tax assets		-	-	913	904	12	13	(925)	(917)	-	-
Other non-financial assets	24	3,395	2,755	2,410	1,521	91	68	(115)	(120)	5,781	4,224
<b>Total non-financial assets</b>		<b>117,272</b>	<b>112,517</b>	<b>19,943</b>	<b>15,241</b>	<b>1,085</b>	<b>1,078</b>	<b>(1,038)</b>	<b>(1,034)</b>	<b>137,262</b>	<b>127,802</b>
<b>Total assets</b>		<b>390,972</b>	<b>355,759</b>	<b>22,927</b>	<b>18,492</b>	<b>149,131</b>	<b>106,266</b>	<b>(73,234)</b>	<b>(49,639)</b>	<b>489,796</b>	<b>430,878</b>

(a) The eliminations and netting column includes adjustments resulting from the elimination of inter-sector transactions and the netting of gains and losses from asset sales and foreign currency transactions.



**Australian Government balance sheet by sector — including General Government Sector Financial Report (continued)**  
as at 30 June 2014

Note	General Government		Public non-financial corporations		Public financial corporations		Eliminations and netting(a)		Australian Government	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>Net worth</b>										
Accumulated results	(316,139)	(249,354)	(1,530)	(69)	1,370	1,163	(3,665)	(11,018)	(319,964)	(259,278)
Reserves	55,047	41,953	1,852	1,702	19,150	10,558	(20,399)	(5,418)	55,650	48,795
Contributed equity	-	-	11,971	8,738	131	131	(12,102)	(8,869)	-	-
Minority interests	-	-	-	-	-	-	-	-	-	-
<b>Net worth</b>	<b>(261,092)</b>	<b>(207,401)</b>	<b>12,293</b>	<b>10,371</b>	<b>20,651</b>	<b>11,852</b>	<b>(36,166)</b>	<b>(25,305)</b>	<b>(264,314)</b>	<b>(210,483)</b>
Current liabilities	76,909	66,691	3,687	3,495	64,592	34,177	(36,208)	(23,209)	108,980	81,154
Non-current liabilities	575,155	496,469	6,947	4,626	63,888	60,237	(860)	(1,123)	645,130	560,209
<b>Total liabilities by maturity</b>	<b>652,064</b>	<b>563,160</b>	<b>10,634</b>	<b>8,121</b>	<b>128,480</b>	<b>94,414</b>	<b>(37,068)</b>	<b>(24,332)</b>	<b>754,110</b>	<b>641,363</b>
Current assets	193,861	172,333	3,059	3,438	135,864	93,350	(35,776)	(22,801)	297,008	246,320
Non-current assets	197,111	183,426	19,868	15,054	13,267	12,916	(37,458)	(26,838)	192,788	184,558
<b>Total assets by maturity</b>	<b>390,972</b>	<b>355,759</b>	<b>22,927</b>	<b>18,492</b>	<b>149,131</b>	<b>106,266</b>	<b>(73,234)</b>	<b>(49,639)</b>	<b>489,796</b>	<b>430,878</b>

(a) The eliminations and netting column includes adjustments resulting from the elimination of inter-sector transactions and the netting of gains and losses from asset sales and foreign currency transactions.



**Australian Government cash flow statement by sector — including General Government Sector Financial Report**  
for the year ended 30 June 2014

	General Government		Public non-financial corporations		Public financial corporations		Eliminations and netting(a)		Australian Government	
	2014 \$m	2013 \$m	2014 \$m	2013 \$m	2014 \$m	2013 \$m	2014 \$m	2013 \$m	2014 \$m	2013 \$m
<b>OPERATING ACTIVITIES</b>										
<b>Cash received</b>										
Taxes received	338,368	326,426	-	-	-	1	4	(143)	338,372	326,284
Receipts from sales of goods and services	8,579	9,071	10,421	9,556	6,675	5,893	(1,467)	(1,442)	24,208	23,078
Interest receipts	3,128	3,561	72	86	1,894	1,898	(872)	(925)	4,222	4,620
Dividend receipts	2,978	3,420	3	-	43	49	(976)	(1,381)	2,048	2,088
GST receipts	-	-	277	56	18	18	(295)	(74)	-	-
Other receipts	6,811	6,845	12	88	9,005	196	(8,746)	(301)	7,082	6,828
<b>Total cash received</b>	<b>359,864</b>	<b>349,323</b>	<b>10,785</b>	<b>9,786</b>	<b>17,635</b>	<b>8,055</b>	<b>(12,352)</b>	<b>(4,266)</b>	<b>375,932</b>	<b>362,898</b>
<b>Cash used</b>										
Taxes paid	-	-	(84)	(70)	(61)	(51)	145	121	-	-
Payments for employees	(25,889)	(25,000)	(3,759)	(3,465)	(430)	(440)	15	10	(30,063)	(28,895)
Payments for goods and services	(75,845)	(72,075)	(5,599)	(5,392)	(5,575)	(5,641)	1,590	1,447	(85,429)	(81,661)
Grants and subsidies paid	(148,990)	(127,754)	-	-	(123)	(106)	9,021	280	(140,092)	(127,580)
Interest paid	(13,972)	(11,846)	(65)	(72)	(1,137)	(838)	866	921	(14,308)	(11,835)
Personal benefits	(126,367)	(116,629)	-	-	-	-	-	-	(126,367)	(116,629)
GST paid	-	-	(396)	(104)	-	-	396	104	-	-
Other payments	(5,769)	(5,902)	(604)	(449)	(266)	(229)	(514)	-	(7,153)	(6,580)
<b>Total cash used</b>	<b>(396,832)</b>	<b>(359,206)</b>	<b>(10,507)</b>	<b>(9,552)</b>	<b>(7,592)</b>	<b>(7,305)</b>	<b>11,519</b>	<b>2,883</b>	<b>(403,412)</b>	<b>(373,180)</b>
<b>Net cash from/(used by) operating activities</b>	<b>(36,968)</b>	<b>(9,883)</b>	<b>278</b>	<b>234</b>	<b>10,043</b>	<b>750</b>	<b>(833)</b>	<b>(1,383)</b>	<b>(27,480)</b>	<b>(10,282)</b>

(a) The eliminations and netting column includes adjustments resulting from the elimination of inter-sector transactions and the netting of gains and losses from asset sales and foreign currency transactions.

**Australian Government cash flow statement by sector — including General Government Sector Financial Report (continued)**  
for the year ended 30 June 2014

	General Government		Public non-financial corporations		Public financial corporations		Eliminations and netting(a)		Australian Government	
	2014 \$m	2013 \$m	2014 \$m	2013 \$m	2014 \$m	2013 \$m	2014 \$m	2013 \$m	2014 \$m	2013 \$m
<b>INVESTING ACTIVITIES</b>										
<b>Cash flows from investments in non-financial assets</b>										
Sales of non-financial assets	457	1,729		50	5	1	-	-	719	1,780
Purchases of non-financial assets	(9,012)	(7,644)	(3,523)	(3,284)	(803)	(26)	1	1	(13,337)	(10,953)
<b>Net cash flows from investments in non-financial assets</b>	<b>(8,555)</b>	<b>(5,915)</b>	<b>(3,266)</b>	<b>(3,234)</b>	<b>(798)</b>	<b>(25)</b>	<b>1</b>	<b>1</b>	<b>(12,618)</b>	<b>(9,173)</b>
<b>Cash flows from investments in financial assets for policy purposes</b>										
Net advances repaid/(paid)	(6,371)	(4,802)	-	-	-	-	(58)	281	(6,429)	(4,521)
<b>Net cash flows from investments in financial assets for policy purposes</b>	<b>(6,371)</b>	<b>(4,802)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(58)</b>	<b>281</b>	<b>(6,429)</b>	<b>(4,521)</b>
<b>Cash flows from investments in financial assets for liquidity purposes</b>										
Decrease/(Increase) in investments	(7,718)	(6,197)	656	(341)	(40,033)	(10,757)	13,591	8,126	(33,504)	(9,169)
<b>Net cash flows from investments in financial assets for liquidity purposes</b>	<b>(7,718)</b>	<b>(6,197)</b>	<b>656</b>	<b>(341)</b>	<b>(40,033)</b>	<b>(10,757)</b>	<b>13,591</b>	<b>8,126</b>	<b>(33,504)</b>	<b>(9,169)</b>
<b>Net cash from/(used by) investing activities</b>	<b>(22,644)</b>	<b>(16,914)</b>	<b>(2,610)</b>	<b>(3,575)</b>	<b>(40,831)</b>	<b>(10,782)</b>	<b>13,534</b>	<b>8,408</b>	<b>(52,551)</b>	<b>(22,863)</b>

(a) The eliminations and netting column includes adjustments resulting from the elimination of inter-sector transactions and the netting of gains and losses from asset sales and foreign currency transactions.

**Australian Government cash flow statement by sector — including General Government Sector Financial Report (continued)**  
for the year ended 30 June 2014

	General Government		Public non-financial corporations		Public financial corporations		Eliminations and netting(a)		Australian Government	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>FINANCING ACTIVITIES</b>										
<b>Cash flows from financing activities</b>										
<b>Cash received</b>										
Borrowings	63,218	27,985	-	681	27,366	7,966	(3,055)	(87)	87,529	36,545
Other financing	-	-	3,233	2,613	3,961	3,341	(5,275)	(4,210)	1,919	1,744
<b>Total cash received</b>	<b>63,218</b>	<b>27,985</b>	<b>3,233</b>	<b>3,294</b>	<b>31,327</b>	<b>11,307</b>	<b>(8,330)</b>	<b>(4,297)</b>	<b>89,448</b>	<b>38,289</b>
<b>Cash used</b>										
Distributions paid	-	-	-	-	-	-	-	-	-	-
Other financing	(1,875)	(1,598)	(412)	(333)	(604)	(1,083)	(6,074)	(2,088)	(8,965)	(5,102)
<b>Total cash used</b>	<b>(1,875)</b>	<b>(1,598)</b>	<b>(412)</b>	<b>(333)</b>	<b>(604)</b>	<b>(1,083)</b>	<b>(6,074)</b>	<b>(2,088)</b>	<b>(8,965)</b>	<b>(5,102)</b>
<b>Net cash flows from financing activities</b>	<b>61,343</b>	<b>26,387</b>	<b>2,821</b>	<b>2,961</b>	<b>30,723</b>	<b>10,224</b>	<b>(14,404)</b>	<b>(6,385)</b>	<b>80,483</b>	<b>33,187</b>
<b>Net (decrease)/increase in cash held</b>	<b>1,731</b>	<b>(410)</b>	<b>489</b>	<b>(380)</b>	<b>(65)</b>	<b>192</b>	<b>(1,703)</b>	<b>640</b>	<b>452</b>	<b>42</b>
<b>Cash at beginning of year</b>	<b>2,113</b>	<b>2,523</b>	<b>891</b>	<b>1,271</b>	<b>1,095</b>	<b>903</b>	<b>(37)</b>	<b>(677)</b>	<b>4,062</b>	<b>4,020</b>
<b>Cash at end of year</b>	<b>3,844</b>	<b>2,113</b>	<b>1,380</b>	<b>891</b>	<b>1,030</b>	<b>1,095</b>	<b>(1,740)</b>	<b>(37)</b>	<b>4,514</b>	<b>4,062</b>
<b>Key fiscal aggregate</b>										
Net cash flows from operating activities	(36,968)	(9,883)	278	234	10,043	750	(833)	(1,383)	(27,480)	(10,282)
Net cash flows from investments in non-financial assets	(8,555)	(5,915)	(3,266)	(3,234)	(798)	(25)	1	1	(12,618)	(9,173)
<b>Cash surplus/(deficit)</b>	<b>(45,523)</b>	<b>(15,798)</b>	<b>(2,988)</b>	<b>(3,000)</b>	<b>9,245</b>	<b>725</b>	<b>(832)</b>	<b>(1,382)</b>	<b>(40,098)</b>	<b>(19,455)</b>
Finance leases and similar arrangements	(586)	(314)	(2,076)	(1,074)	-	-	-	-	(2,662)	(1,388)
<b>GFS cash surplus/(deficit)</b>	<b>(46,109)</b>	<b>(16,112)</b>	<b>(5,064)</b>	<b>(4,074)</b>	<b>9,245</b>	<b>725</b>	<b>(832)</b>	<b>(1,382)</b>	<b>(42,760)</b>	<b>(20,843)</b>

(a) The eliminations and netting column includes adjustments resulting from the elimination of inter-sector transactions and the netting of gains and losses from asset sales and foreign currency transactions.

**Australian Government statement of changes in equity — General Government Sector**  
for the year ended 30 June 2014

Item	Reserves										Total \$m
	Accumulated results \$m	Asset revaluation reserve \$m	Foreign currency translation reserve \$m	Investments reserve \$m	Statutory funds \$m	Other reserves \$m	Total reserves \$m	Contributed equity \$m	Total \$m		
Opening balance as at 1 July 2013	(249,354)	29,256	(218)	12,845	-	70	41,953	-	(207,401)		
Non-material changes											
in accounting policy and errors	482	15	(2)	35	-	47	95	-	577		
Adjusted opening balance as at 1 July 2013	(248,872)	29,271	(220)	12,880	-	117	42,048	-	(206,824)		
Comprehensive result - Total change in net worth	(68,182)	1,118	(109)	12,948	-	(44)	13,913	-	(54,269)		
Transfers to/(from) reserves	915	53	-	(983)	-	16	(914)	-	1		
<b>Equity as at 30 June 2014</b>	<b>(316,139)</b>	<b>30,442</b>	<b>(329)</b>	<b>24,845</b>	<b>-</b>	<b>89</b>	<b>55,047</b>	<b>-</b>	<b>(261,092)</b>		
less Minority interests	-	-	-	-	-	-	-	-	-		
<b>Attributable to the Australian Government</b>	<b>(316,139)</b>	<b>30,442</b>	<b>(329)</b>	<b>24,845</b>	<b>-</b>	<b>89</b>	<b>55,047</b>	<b>-</b>	<b>(261,092)</b>		

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

**Australian Government statement of changes in equity — General Government Sector (continued)**  
for the year ended 30 June 2013

Item	Reserves								Total \$m
	Accumulated results \$m	Asset revaluation reserve \$m	Foreign currency translation reserve \$m	Investments reserve \$m	Statutory funds \$m	Other reserves \$m	Total reserves \$m	Contributed equity \$m	
Opening balance as at 1 July 2012	(292,938)	28,807	(178)	11,486	-	68	40,183	-	(252,755)
Changes in accounting policy and errors	158	(119)	-	2	-	7	(110)	-	48
Adjusted opening balance as at 1 July 2012	(292,780)	28,688	(178)	11,488	-	75	40,073	-	(252,707)
Comprehensive result - Total change in net worth	43,417	560	(40)	1,357	-	11	1,888	-	45,305
Transfers to/(from) reserves	9	8	-	-	-	(16)	(8)	-	1
<b>Net worth as at 30 June 2013</b> less: Minority interests	(249,354)	29,256	(218)	12,845	-	70	41,953	-	(207,401)
<b>Attributable to the Australian Government</b>	(249,354)	29,256	(218)	12,845	-	70	41,953	-	(207,401)

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

## **NOTES TO THE FINANCIAL STATEMENTS**



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## **Note 1: Statement of significant accounting policies**

### **1.1 Purpose**

The purpose of this note is to disclose the significant accounting policies applied in the financial report of the Australian Government (whole of government) and the general government sector (GGs). Except as otherwise noted, the accounting policies detailed in this note are applicable at both the whole of government level and for the GGs.

### **1.2 Statement of compliance**

The Australian Government Consolidated Financial Statements (CFS) are required by section 55 of the *Financial Management and Accountability Act 1997* (FMA Act), and the regulations of that Act. As of 1 July 2014, the *Public Governance, Performance and Accountability Act 2013* (PGPA Act) has replaced the FMA Act and the *Commonwealth Authorities and Companies Act 1997* (CAC Act). Section 48 of the PGPA Act continues to require the annual preparation of the CFS. The implementation of the PGPA Act is not expected to have a material change in the content or reporting of the CFS.

The CFS is a general purpose financial report that has been prepared for the whole of government and the GGs in accordance with Australian Accounting Standards (AASs), including AASB 1049 *Whole of Government and General Government Sector Financial Reporting* (AASB 1049).

AASB 1049 stipulates that the GGs financial statements are not to be made available prior to the whole of government financial statements being made available. The GGs financial statements have therefore been included in the CFS and can be found in the Sector statements and the Notes to the financial statements.

Under the *Charter of Budget Honesty Act 1998*, the Australian Government is also required to publicly release and table a Final Budget Outcome (FBO) report. The 2013-14 Final Budget Outcome (FBO) for the Australian Government showed GGs budget aggregates for 2013-14 together with an analysis of the outcome against the revised budget prepared as part of the 2014-15 Budget update. The FBO was released by the Treasurer on 25 September 2014. The FBO is unaudited but is derived from materially audit-cleared financial statements. Under the *Charter of Budget Honesty Act 1998*, the FBO must be based on external reporting standards; including AASs and the concepts and classifications set out in Government Finance Statistics (GFS), with any departures from those standards to be documented. These departures are detailed in Part 2, Note 2 of the 2013-14 FBO.

### **1.3 Basis of accounting**

The financial report for the whole of government and the GGs has been prepared in accordance with the reporting requirements of AASB 1049, which requires compliance with applicable AASs. The purpose of this financial report is to provide users with

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

AASB 1049 requires preparation of a whole of government financial report and a GGS financial report. The standard requires compliance with other applicable accounting standards, except as specified, and mandates disclosure of certain key fiscal aggregates.

There are three main general purpose statements that must be prepared in accordance with AASB 1049. These are:

- an operating statement, including other economic flows, which shows net operating balance and net lending/borrowing (fiscal balance);
- a balance sheet, which shows net worth; and
- a cash flow statement, which shows the calculation of the cash surplus/(deficit) and includes GFS cash surplus/(deficit).

In addition to these general purpose statements, notes to the financial statements are required. These notes include a summary of accounting policies, disaggregated information and other disclosures required by the accounting standards.

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

The 2013-14 financial report for the whole of government and the GGS has been prepared on the basis of the ABS GFS manual effective as at 1 July 2012 with one exception as provided for in AASB 1049:

- On 13 July 2010, the treatment of defence weapons platforms (DWPs) was amended in the ABS GFS manual. The ABS treatment of DWPs changed to treat DWPs as capital formation (assets). Previously DWPs were fully expensed in the period they were acquired. Under the ABS GFS manual, all assets are recognised at market value. In the financial report for the whole of government and the GGS, DWPs are classified as specialist military equipment and are recorded at cost. In accordance with AASB 1049, paragraph 13C, the Australian Government has elected not to apply this amendment in the Consolidated Financial Statements for reporting periods ending before 30 June 2015. The impact of the change in the ABS GFS manual is currently being investigated.

*Notes to the financial statements*

Since the ABS GFS manual version as at 1 July 2012, there has been one amendment to the ABS GFS Manual:

- 20 November 2012 – This update to the amendments relates to the introduction and treatment of the various Commonwealth schemes that have been established by the Australian Government to reduce greenhouse gas (GHG) emissions, and it aligns the ABS GFS Manual with the ABS approach to emissions reduction schemes. As detailed below, the treatment of emission reduction schemes in the Consolidated Financial Statements, in particular the carbon pricing mechanism, is currently prepared in accordance with a preliminary interpretation based on the AASB issued staff paper.

Where the key fiscal aggregates presented on the face of the financial statements are materially different to that measured in accordance with the applied ABS GFS manual, a reconciliation between the two measures has been provided (refer Note 42).

The financial report has been prepared on an accrual basis and is presented in Australian dollars. No accounting assumptions or estimates have been identified that have a significant risk of causing a material adjustment to carrying amounts of assets and liabilities within the next accounting period.

AASB 1049 also requires functional information to be disclosed by expenses and assets according to the Government Purpose Classification (GPC). The GPC is based on the ABS classifications used as part of the GFS reporting framework. The disclosures are as follows:

- expenses, excluding losses and revaluations, that are reliably attributable to each function (refer Note 11); and
- the carrying amount of assets recognised in the balance sheet that are reliably attributable to each function (refer Note 25).

With the exception of advances paid to the International Development Association (IDA) and the Asian Development Fund (ADF) and free carbon units issued under the carbon pricing mechanism, the key fiscal aggregates reported in the CFS GGS financial statements materially align to the GGS financial statements included in the FBO. As detailed in Part 2, Note 2 of the 2013-14 FBO, AASB 1049 requires the advances paid to the IDA and ADF to be recognised at fair value. Under the ABS GFS manual, these advances are recorded at nominal value. The ABS GFS treatment is adopted in the FBO while the AAS treatment is adopted in the CFS.

The price of carbon units was set under the *Clean Energy Act 2011*. A preliminary interpretation based on the AASB issued staff paper recognises transactions under the carbon pricing mechanism in the financial statements where they are expected to result in a receipt or payment of cash by the government at the amount of the expected cash settlement. The issuance and surrender of free carbon units and Australian Carbon

Credit Units (ACCU) used in the settlement of emissions liabilities do not qualify for recognition by the government as assets, liabilities, revenues or expenses. The Consolidated Financial Statements apply the AAS treatment. The carbon pricing mechanism legislation was repealed by Parliament on 17 July 2014, effective at 1 July 2014.

The 2013-14 FBO adopts the ABS GFS treatment as used in the 2013-14 Budget. Under ABS GFS, the issuance of free carbon units that are expected to be used to settle an emitter's obligation are treated as an expense on issue and revenue when emissions occur. This had the effect of increasing both the revenue and expense with no impact on the net operating balance or fiscal balance.

#### **1.4 New Australian Accounting Standards**

##### Adoption of New Australian Accounting Standard Requirements

During 2013-14, the Australian Government adopted all applicable Australian Accounting Standards that became effective during 2013-14.

- AASB 13 *Fair Value Measurement* streamlines the guidance for measuring assets and liabilities at fair value considering a market participant perspective. This requires assessment of an asset's fair value based on highest and best use. Moreover, the Fair Value Hierarchy is extended to all assets and liabilities under the amendment to this standard. See Note 17 for Fair Value disclosures for the Australian Government.
- AASB 119 *Employee Benefits* has been updated with accounting and disclosure requirements for employee benefits. Under the revised standard, actuarial gains and losses on defined benefit superannuation obligations are now fully recognised on the balance sheet, and included in other comprehensive income, in the reporting period in which they occur. Current service and net interest costs are now recognised in net profit. Net interest is now calculated by applying the discount rate to the net defined benefit liability; previously the return on the assets of a superannuation scheme was incorporated in this calculation. There is also clarification on the matter of short term employee benefits, which now requires annual leave liabilities not settled within a 12 month period to be classified as a long term benefit and measured on a discounted basis.

These amendments result in an increase in superannuation liability of \$292 million (\$614 million at 1 July 2012) and a cumulative reduction in reserves of \$142 million being retrospectively recognised at 30 June 2013, with corresponding adjustments to the comparative figures for the reported total comprehensive income. The impact of these amendments on 2012-13 is included as part of the adjustments shown in Note 1.5.

No accounting standard has been adopted earlier than the application date as stated in the standard.

### Future Australian Accounting Standards Requirements

The AASB has issued a number of new standards, amendments to standards and interpretations that are effective for future reporting periods:

- The IASB has been progressively replacing the current standard for the measurement and recognition of financial instruments (IAS 39 *Financial Instruments: Recognition and Measurement* (in Australia AASB 139)) with a new standard IFRS 9 *Financial Instruments* (in Australia AASB 9). AASB 9 currently contains the requirements for the recognition and measurement of financial assets and liabilities and their derecognition and general hedge accounting. The requirements for amortised cost and impairment, and macro hedge accounting are expected to be incorporated into the standard at a later stage. The amendments will likely have an impact on the recognition and measurement of financial instruments. The final outcome will be considered once the project is complete. The new standard is effective from 1 July 2017;
- AASB 10 *Consolidated Financial Statements*, AASB 11 *Joint Arrangements*, AASB 12 *Disclosure of Interests in Other Entities* and AASB 128 *Investments in Associates and Joint Ventures* (operative for 2014-15);
- Under AASB 10, the criteria to assess 'control' has changed. Under the new Standard, three criteria are required to assess whether control exists, being: the entity's power over an investee; the entity's exposure, or rights to variable returns from an investee; and the ability to affect those returns through power over an investee. AASB 11 replaces those requirements in AASB 131 *Interests in Joint Ventures* and requires entities that have an interest in arrangements that are jointly controlled to assess whether the arrangement is a joint operation or joint venture. Joint operations will be accounted for in accordance with AASB 11 while joint ventures will be accounted for in accordance with AASB 128 *Investments in Associates and Joint Ventures*. AASB 12 requires disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, interests in other entities and the effects of those interests on the financial statements. The revised AASB 128 sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. Other than disclosure, the above changes are not expected to materially impact the Consolidated Financial Statements;
- AASB 1031 *Materiality* is planned to be withdrawn by the Australian Accounting Standards Board in 2014-15. As a result of the change, guidance on quantitative assessment of materiality will likely be removed. Judgement calls will be required on a case-by-case basis as the quantitative rule will no longer be available;
- AASB 1049 *Whole of Government and General Sector Financial Reporting* will require Defence Weapons Platforms (DWP) to be measured at fair value from 2014-15, if fair value can be reliably measured. The cost basis of measurement is currently

used for the valuation of DWPs. The question of reliable measurement of DWPs is yet to be settled, consequently the impact of this accounting standard change on the Consolidated Financial Statements cannot be quantified;

- AASB 1055 *Budgetary Reporting* requires reporting of budgetary information and explanation of significant variance between actual and budgeted amounts by not-for-profit entities within the General Government Sector. This Standard relocates the budgetary requirements currently in AASB 1049 *Whole of Government and General Government Sector Financial Reporting* into AASB 1055 to make it the complete reference on this topic. The new Standard applies to reporting periods beginning on or after 1 July 2014. AASB 1055 does not apply to the Consolidated Financial Statements but will see similar disclosures reported in entity financial statements to that already reported in Note 44.

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

### **1.5 Prior year adjustments and changes in accounting policy**

For the 2012-13 financial year, income tax in relation to individuals and other withholding tax was overstated by amounts relating to compulsory repayments for the Higher Education Loan Programme (HELP). Adjustments were also made to multiple heads of revenue for 2012-13 due to an overstatement of revenue and expense in relation to penalty and interest imposition and remissions. This second adjustment has a nil effect on the Net Operating Balance in the Consolidated Statement of Comprehensive Income.

During 2013-14, revenues and receivables relating to child support penalties have been derecognised as they do not meet the recognition criteria for revenue and receivables as required by the relevant accounting standards. Accordingly, the 2012-13 comparatives relating to child support penalties have also been adjusted.

In the 2013-14 financial year, the accounting policy for recognising personal benefits recoveries revenue was changed to ensure consistent treatment at the whole of government level. These recoveries relate to where a recipient has been overpaid a particular benefit payment and the overpayment is recovered from a subsequent personal benefit payment.

In the 2013-14 financial year, the accounting policy for recognition of administered paid parental leave (PPL) liabilities was changed to ensure consistent application of AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* and is in harmony with the accounting treatment under the Government Finance Statistics. The change was for recognition of PPL liabilities on a 'due and payable' basis. Previously, the PPL liability was recognised where a constructive obligation had been established based on the

*Notes to the financial statements*

birth of a child with an estimate of this liability being made. The 2012-13 liability for PPL has been adjusted for the new recognition method.

As a result of these prior period errors and accounting policy changes and other adjustments, including changes due to revisions to AASB 119, the combined impact on the Consolidated Financial Statements for 2012-13 was as follows:



Notes to the financial statements

Financial Reporting Line Item Affected	2013		2013
	Original \$m	Adjustment \$m	Restated \$m
<b>Consolidated Statement of Comprehensive Income</b>			
<b>Revenue</b>			
Note 2. Taxation revenue			
Gross income tax withholding	151,069	(772)	150,297
Fringe benefits tax	3,971	(1)	3,970
Company tax	68,096	(285)	67,811
Superannuation funds	7,581	(108)	7,473
Resource rent taxes	1,927	(13)	1,914
Goods and services tax	50,313	(111)	50,202
Luxury car tax	432	(1)	431
Note 5. Other sources of non-tax revenue			
Child support payments	1,509	(71)	1,438
Other	3,776	(146)	3,630
<b>Total revenue</b>	<b>371,955</b>	<b>(1,508)</b>	<b>370,447</b>
<b>Expenses</b>			
Note 6. Employee and superannuation expenses			
Superannuation	8,780	(20)	8,760
Note 8. Supply of goods and services			
Benefits to households in goods and services	39,283	(10)	39,273
Other	7,009	(12)	6,997
Note 9. Interest expenses			
Unwinding of discount and other	512	(236)	276
Note 10. Grants expense			
Other current grants	7,344	236	7,580
Mutually agreed write-downs	2,162	(1,368)	794
<b>Total expenses</b>	<b>395,306</b>	<b>(1,410)</b>	<b>393,896</b>
<b>Net operating balance</b>	<b>(23,351)</b>	<b>(98)</b>	<b>(23,449)</b>
<b>Other economic flows</b>			
<b>- included in Operating Result</b>			
Note 12. Net write-downs of assets			
Receivables - other bad and doubtful debts	(353)	(6)	(359)
<b>Total other economic flows</b>	<b>19,630</b>	<b>(6)</b>	<b>19,624</b>
<b>- included in Operating Result</b>	<b>(3,721)</b>	<b>(104)</b>	<b>(3,825)</b>
<b>Operating result</b>	<b>(3,721)</b>	<b>(104)</b>	<b>(3,825)</b>
<b>Other economic flows - Other non-owner movements in equity</b>			
Other economic revaluations	(122)	(181)	(303)
<b>Comprehensive result</b>	<b>46,613</b>	<b>(285)</b>	<b>46,328</b>
<b>- Total change in net worth</b>	<b>46,613</b>	<b>(285)</b>	<b>46,328</b>

Notes to the financial statements

Financial Reporting Line Item Affected	2013		2013
	Original \$m	Adjustment \$m	Restated \$m
<b>Consolidated Balance Sheet</b>			
<b>Assets</b>			
Note 34B. Cash and deposits			
Financial assets - cash	4,024	38	4,062
Note 18. Other receivables and accrued revenue			
Other receivables	8,421	(759)	7,662
Provision for doubtful debts - other receivables	(2,538)	750	(1,788)
<b>Total assets</b>	<b>430,848</b>	<b>30</b>	<b>430,878</b>
<b>Liabilities</b>			
Note 31. Employee benefits			
Superannuation liability	193,402	292	193,694
Note 32. Provisions and payables			
Trade creditors	4,949	37	4,986
Other payables	989	5	994
Personal benefits payable	5,815	(116)	5,699
Subsidies payable	3,557	23	3,580
Other grants payable	664	(23)	641
Provision for outstanding benefits and claims	12,777	(247)	12,530
<b>Total liabilities</b>	<b>641,389</b>	<b>(28)</b>	<b>641,361</b>
<b>Net worth</b>	<b>(210,541)</b>	<b>58</b>	<b>(210,483)</b>
<b>Note 36. Contingencies</b>			
<b>Quantifiable contingent liabilities</b>			
Guarantees	443	14,786	15,229
Uncalled shares/capital subscriptions	11,380	1,871	13,251
<b>Total quantifiable contingent liabilities</b>	<b>19,765</b>	<b>16,657</b>	<b>36,422</b>
<b>Net quantifiable contingencies</b>	<b>19,433</b>	<b>16,657</b>	<b>36,090</b>

The above prior year errors and accounting policy changes had the impact of decreasing liabilities as at 1 July 2012 (the start of the comparative period) by \$352 million, assets by \$7 million and increasing net worth by \$345 million.

## 1.6 The reporting entity and basis of consolidation

For the purposes of this financial report, 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 this report it is intended to also mean the 'Commonwealth of Australia'.

For the purposes of this financial report, the Australian Government reporting entity (referred to as the reporting entity) includes Australian Government Departments of State, Parliamentary Departments, prescribed agencies, Commonwealth authorities and Commonwealth companies in which the Australian Government holds a controlling interest. In the process of reporting the Australian Government as a single

economic entity, all material transactions and balances between government-controlled entities are eliminated. Where circumstances arise and their effect is considered material, dissimilar accounting policies are amended to ensure consistent policies are adopted in this consolidated financial report.

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

For the purposes of this financial report, the control of another entity by the Australian Government complies with the requirements under AASB 127 *Consolidated and Separate Financial Statements*.

The existence of control in the context of this consolidated financial report does not in any way indicate that there is necessarily control over the manner in which statutory/professional functions are performed by an entity.

A detailed list of entities controlled by the Australian Government is provided in Note 45.

The Australian National University has not been consolidated in this financial report, but the value of total net assets has been recognised as an investment. Similarly, the total value of net assets of other entities, in which the Australian Government holds a share of the assets, but which it does not significantly influence, have also been recognised as an investment. Details of those entities are included in Note 45.

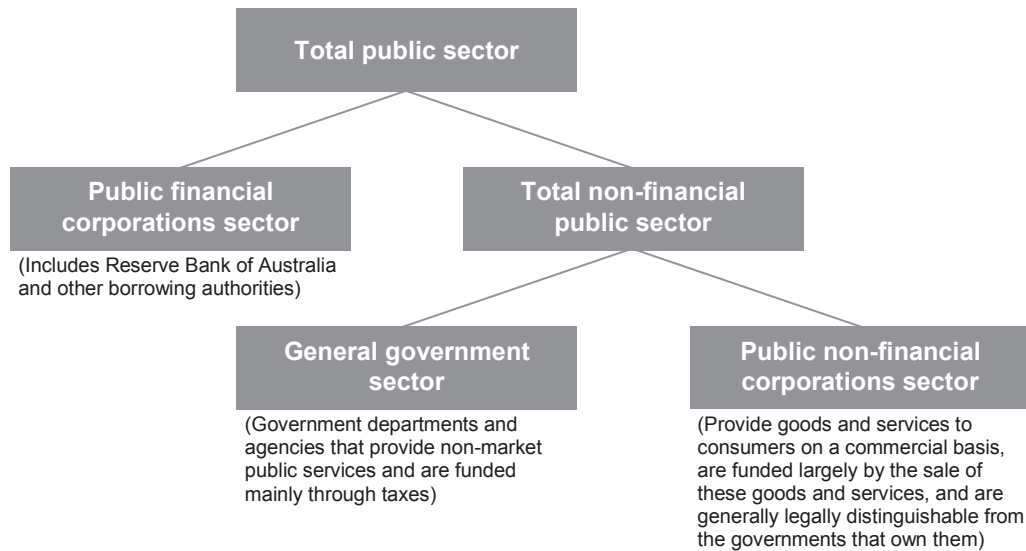
## **1.7 Sectors**

The CFS includes the balances of GGS assets and liabilities held at the end of the financial year, and the GGS income and expenses during the year. The GGS operating statement, balance sheet and statement of cash flows are included in the Sector statements with supporting notes.

The consolidated operating statement, balance sheet, statement of cash flows, schedule of commitments (Note 35) and schedule of contingencies (Note 36) have also been disaggregated to include the Australian Government public non-financial corporations (PNFC) sector and the public financial corporations (PFC) sector.

In accordance with AASB 1049, the sector classification of Australian Government entities follows that defined by ABS 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**



*General government sector:* The general government sector (GGS) provides public services that are mainly non-market in nature, and for the collective consumption of the community, or involve the transfer or redistribution of income. These services are largely financed through taxes and other compulsory levies, although user charging and external funding have increased in recent years.

*Public non-financial corporations sector:* The primary function of the public non-financial corporations (PNFC) sector is to provide goods and services that are mainly commercial, non-regulatory, and non-financial in nature, financed predominantly through sales to the consumers of these goods and services.

*Public financial corporations sector:* The public financial corporations (PFC) sector comprises entities that have one or more of the following characteristics as their principal activity. They:

- perform central banking functions;
- accept demand, time or savings deposits; or
- have the authority to incur liabilities and acquire financial assets in the market on their own account.

### **1.8 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. Foreign exchange holdings contracted for sale beyond 30 June (including those under swap contracts) have been valued at market exchange rates.

## **1.9 Significant accounting judgements and estimates**

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

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

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

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

### **Revenues:**

- A number of taxation revenue items are reported according to the economic transaction method (ETM), which relies on the estimation of the probable flows of taxes from transactions which have occurred in the economy, but have not yet been reported to the Australian Government.

### **Financial instruments:**

- Australian Government entities evaluate the collectability of accounts receivable on an ongoing basis based on historical bad debts, customer/recipient credit-worthiness, current economic trends and changes in payment activity. An allowance is provided for known and estimated bad debts.
- In some instances, the fair value of derivatives, financial assets and liabilities must be estimated for recognition, measurement or disclosure purposes. Valuation techniques include, where applicable, reference to prices quoted in active markets, discounted cash flow analysis, fair value of recent arm's length transactions involving the same instruments or other instruments that are substantially the same, and option pricing models (refer Note 17).

### **Statutory receivables:**

- Provisions for doubtful debts (provision for impairment) and credit amendments are raised on outstanding tax debts and other statutory debts and rely on estimation methodologies and techniques to calculate the amount of the provision.

*Notes to the financial statements*

Land, buildings, plant, equipment and infrastructure:

- Where available, the fair value of property, plant and equipment is determined by reference to market-based evidence, for example, the market value of similar properties. If there is no market-based evidence of fair value because of the specialised nature of the item of property, plant or equipment and the item is rarely sold, fair value is estimated using an income (net present value/discounted cash flows) or a depreciated replacement cost approach (refer Note 17).
- Expected useful lives are estimated in the calculation of accumulated depreciation and amortisation and the associated expenses.
- Estimates are made in determining value-in-use for impairment purposes.
- When a legal or constructive obligation exists, an estimate of the cost of restoration or removal is provided for in the measurement of property, plant and equipment. 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.

Inventories:

- Australian Government entities periodically review inventory quantities on hand and evaluate significant items to determine whether they are excess or obsolete. The estimated value of excess and obsolete inventory is recorded as a reduction to inventory and an expense for the period in which it is identified.

Employee benefits:

- Various actuarial assumptions are utilised in the determination of the provisions for the Australian Government sponsored defined benefit superannuation schemes, including weighted average projected increases in salaries, discount rates, expected return on plan assets, future defined benefit fund increases and benefit taking rates. These assumptions are disclosed in Note 38.
- Various actuarial assumptions are also utilised in the determination of Australian Government long service leave provisions, including weighted average projected increases in salaries, weighted average discount rates and benefit taking probabilities.

Other provisions:

- In calculating the estimated cost of future payments for each provision, actuarial advice is generally obtained. The actuarial assessments use a range of estimation techniques, including based on historical experience. Where a range of potential outcomes is possible, the provision is generally valued using a central estimate

(excluding workers compensation) plus an appropriate risk margin. The expected future payments are discounted to present value using a risk-free rate.

- The calculation of all provisions is subject to the volatility of economic assumptions used, in particular, the discount rate and the effects of inflation as well as the impact of variations in payment patterns. Given the uniqueness of a number of the Australian Government provisions and the use of actuarial assumptions, there can be an element of uncertainty in the estimate.
- Significant provisions are listed in Note 1.17. Certain provisions include estimates of claims incurred but not yet reported.

**Contingent liabilities and contingent assets:**

- In determining whether to include or exclude a matter as a contingency the likelihood of meeting the eligibility requirements and the amount of future payments is determined to be uncertain.
- Where the outflow/inflow of resources is probable the entity will quantify the obligation.

**1.10 Presentation of financial statements**

**Consolidated operating statement**

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

Income and expenses in the operating statement are classified according to whether or not they arise from 'transactions' or 'other economic flows'. This classification is consistent with that required under AASB 1049.

'Transactions' and 'other economic flows' are defined by the ABS GFS Manual.

'Transactions' are those economic flows that are considered to arise as a result of decisions, usually interactions between two entities by mutual agreement, and also flows within an entity, such as depreciation where the owner is simultaneously acting as the owner of the depreciating asset and as the consumer of the service provided by the asset. Taxation is regarded as mutually agreed interactions between the Australian Government and taxpayers. Transactions can be in kind (for example, assets provided/given free of charge or for nominal consideration) or where the final consideration is cash.

'Other economic flows' are changes arising from market re-measurements and other volume changes. They include gains and losses from disposals, revaluations and impairments of non-current physical and intangible assets; actuarial gains and losses arising from defined benefit superannuation plans; fair value changes of financial

### *Notes to the financial statements*

instruments and agricultural assets; and depletion of natural assets (non-produced) from their use or removal.

The operating result is equivalent to profit or loss derived in accordance with AASs.

Key fiscal aggregates contained in the statement (and defined in Note 46) include:

- net result from transactions – net operating balance;
- total change in net worth; and
- fiscal balance – net lending/(borrowing).

#### Consolidated balance sheet

The balance sheet shows assets, liabilities and net worth. In the balance sheet:

- assets are aggregated into financial and non-financial;
- liabilities are aggregated into interest bearing liabilities and provisions and payables;
- assets and liabilities are classified according to GFS terminology, but retain measurement and disclosure rules under accounting standards; and
- assets and liabilities are also classified (in aggregate) as current versus non-current.

#### Consolidated cash flow statement

The cash flow statement identifies how cash is generated and applied in a single accounting period. The cash flow statement reflects a cash basis of recording (rather than an accrual basis). This, in effect, means that transactions are captured when cash is received or when cash payments are made.

The key fiscal aggregate is the cash surplus/(deficit). The cash surplus/(deficit) measure is equal to the net cash flows from operating activities, less net cash flows from investments in non-financial assets.

The GFS cash surplus/(deficit) measure includes assets acquired under finance leases so that all asset purchases are treated consistently. As these are not cash flows they are included as a non-cash adjustment.



## 1.11 Revenue from transactions

### Appropriation revenue

Section 83 of the Constitution provides that no money shall be drawn down from the Treasury of the Australian Government except under appropriations made by law.

Australian Government entities receive appropriation funding through the following:

- annual appropriations and all other appropriations under an Appropriation Act;
- appropriations under section 31 of the *Financial Management and Accountability Act 1997* (FMA Act);
- appropriations under sections 20, 21, 28, 30A and 39 of the FMA Act;
- transfer of appropriations under section 32 of the FMA Act;
- other amounts as determined under an Appropriation Act by the Finance Minister (or delegate) or an Agency Minister or Presiding Officer;
- other special appropriations – limited in amount, formula and/or time and/or determined by a Minister; and
- other unlimited special appropriations.

As appropriation revenue is internal to government, it has been eliminated upon consolidation in this financial report.

### Taxation revenue

Taxation revenues are recognised when the Australian Government gains control of and can reliably measure or estimate the future economic benefits that flow from taxes and other statutory charges.

Where reliable, taxation revenue is recognised in the reporting period in which the taxpayer earns the income that is subsequently subject to taxation – this is known as the economic transactions method (ETM). Currently, petroleum resource rent tax (included in resource rent taxes), excise duty, customs duty, sales tax (including goods and services tax), fringe benefits tax, the carbon pricing mechanism and other taxes are recognised on an ETM basis.

Where there is an inability to reliably measure taxation revenue on an ETM basis, taxation revenue is recognised at the earlier of when an assessment of a tax liability is made or when cash payment is received by the relevant taxation authority – this is known as the taxation liability method (TLM).

*Notes to the financial statements*

The TLM is permitted under AAS and is applied in the CFS when there is an inability to measure taxation revenues reliably at the time the underlying transaction or event occurs. This recognition policy means that taxation revenue is generally measured at a later time than would be the case if it were measured under the ETM. Currently, individuals, company and superannuation tax revenue and the minerals resource rent tax (included in resource rent taxes) are recognised on a TLM basis.

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

**Taxation revenue**

<b>Type of taxation revenue</b>	<b>Revenue recognition basis</b>	<b>Basis of revenue recognition</b>
Income tax — individuals	TLM	The total revenue related to income tax from individuals reported in the operating statement comprises 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 includes income tax instalments and final tax returns received during the year. Other individuals 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	Company tax comprises 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 comprises 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.
Income tax— superannuation surcharge	TLM	This tax was abolished from 1 July 2005. However, assessments and amendments continue to be issued for 2004–05 and previous financial years. Different arrangements exist for unfunded defined benefit funds (UDBs). Superannuation surcharge revenue relating to UDBs is recognised at the time it can be assessed, even though it may not be collected for some years, until which time an annual interest charge accrues.
Minerals resource rent tax (Resources rent tax)	TLM	Minerals resource rent tax is a project based tax on the extraction of iron ore and coal. The taxation recognised is based on instalment and final payments received in this reporting period. It does not include estimates of revenue related to the current financial year that will be recognised in annual returns and instalments due after the end of the year.
Petroleum resource rent tax (Resources rent tax)	ETM	Petroleum resource rent tax is recognised based on the actual and estimated taxable profits in respect of offshore petroleum projects other than 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	The GST is a broad-based tax of 10 per cent on most goods and services supplied/sold during the reporting period. The GST revenue is recognised based on the actual liabilities raised during the year and an estimate of those outstanding that relate to transactions occurring in the reporting period.

**Taxation revenue (continued)**

Excise duty	ETM	Excise duty is 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	Customs duty is recognised when imported goods are distributed for home consumption.
Sales tax and other indirect tax	ETM	Sales tax and other indirect tax includes the luxury car tax and wine equalisation tax. Luxury car tax is recognised at the time the sale of a luxury vehicle occurs within the reporting period. Wine equalisation tax is recognised when an assessable dealing occurs within the reporting period that gives rise to the liability to pay tax.
Carbon pricing mechanism	ETM	Carbon price revenue is recognised when liable entities' emissions occur, where it is probable that future economic benefits will occur and can be reliably measured. Unit shortfall charges and other penalties are recognised at the time they are imposed.
Fringe benefits tax (FBT)	ETM	FBT is recognised on fringe benefits provided to employees during the reporting period and includes an estimate of outstanding instalments and balancing payments for the annual FBT return.

If all taxation revenue had been measured according to the ETM, including those revenue types currently considered unreliable, the estimated impact on the 2013-14 financial results would be as follows:

**Operating statement for the period to 30 June 2014 — Adoption of ETM**

	2014 Income statement \$m	2014 Full ETM \$m	2014 Difference \$m
<b>Income</b>			
<b>Taxation revenue</b>			
Income tax			
Individuals and other withholding taxes	167,915	167,629	(286)
Fringe benefits tax	4,285	4,285	-
Superannuation	6,147	5,984	(163)
Companies	68,625	61,341	(7,284)
Resources rent tax (a)	1,785	1,785	-
<b>Total income tax</b>	<b>248,757</b>	<b>241,024</b>	<b>(7,733)</b>
<b>Total taxation revenue</b>	<b>349,069</b>	<b>341,336</b>	<b>(7,733)</b>

(a) This figure does not include an ETM estimate for the minerals resource rent tax which is not yet available.

**Balance sheet as at 30 June 2014 — Adoption of ETM**

	2014 Balance \$m	2014 Full ETM \$m	2014 Difference \$m
<b>Assets</b>	<b>489,796</b>	<b>560,055</b>	<b>70,259</b>
<b>Liabilities</b>	<b>754,110</b>	<b>814,104</b>	<b>59,994</b>
<b>Net worth</b>	<b>(264,314)</b>	<b>(254,049)</b>	<b>10,265</b>

*Notes to the financial statements*

The estimated impact of full ETM on the 2012-13 comparative financial results would be as follows:

**Operating statement for the period to 30 June 2013 — Adoption of ETM**

	2013 Income statement \$m	2013 Full ETM \$m	2013 Difference \$m
<b>Income</b>			
<b>Taxation revenue</b>			
Income tax			
Individuals and other withholding taxes	159,779	158,885	(894)
Fringe benefits tax	3,970	3,970	-
Superannuation	7,473	6,433	(1,040)
Companies	67,811	67,889	78
Resources rent tax	1,914	1,914	-
<b>Total income tax</b>	<b>240,947</b>	<b>239,091</b>	<b>(1,856)</b>
<b>Total taxation revenue</b>	<b>334,430</b>	<b>332,574</b>	<b>(1,856)</b>

**Balance sheet as at 30 June 2013 — Adoption of ETM**

	2013 Balance \$m	2013 Full ETM \$m	2013 Difference \$m
Assets	430,878	503,015	72,137
Liabilities	641,361	695,494	54,133
<b>Net worth</b>	<b>(210,483)</b>	<b>(192,479)</b>	<b>18,004</b>

In preparing the ETM financial results, company and superannuation revenue comprise actual amounts and estimates of income tax payable by companies and superannuation funds that relate to instalments and final payments relevant to companies or superannuation funds with balance dates falling in the reporting period. For companies and superannuation funds that do not have a reporting period ending 30 June, reporting end date has been interpreted as though it was 30 June.

The reliability of the ETM is assessed annually by relevant government agencies to determine if its adoption is appropriate across all items of taxation revenue reported in the Australian Government's budget-related forecast and outcomes documentation.

Penalties and general interest charges (GIC) arising under taxation legislation are recognised as revenue at the time the penalty and GIC are imposed under the law on the taxpayer and included within relevant applicable revenue categories. Where events have occurred that prevented the application of GIC or penalties to taxpayer accounts, and the amounts can be reliably estimated, an estimate is included in the financial statements. Subsequent remissions and write-offs of such penalties and GIC are treated as an expense or other economic flow of the period.

Provisions are raised for any doubtful taxation debts and any probable credit amendments, and are based on a review of outstanding accounts as at year end. This

includes examination of individual large debts and also disputed amounts with reference to historic collection patterns.

The Australian Government is responsible for the administration of the *Commonwealth Places (Mirror Taxes) Act 1988*, which facilitates the payment of compensation to the States in respect of State taxes which may be constitutionally invalid, levied on Commonwealth places. Under the Act, the Australian Government is liable to pay to a State an amount equal to amounts notionally receivable by the Australian Government (including amounts received by a State on behalf of the Australian Government) under an applied law of the State. The amounts collected and retained by the States pursuant to the Act are disclosed in Note 2.

#### Taxation expense

Amounts paid through the tax system that are available to beneficiaries regardless of whether they are required to pay tax are recognised as an expense. By way of example, this would include payments made through the tax system in relation to the Private Health Insurance Benefit.

Tax expenditures refer to tax concessions that are designed to provide a benefit to a specified activity or class of taxpayer and the arrangement is integral to the tax system. Tax expenditures can be delivered in a variety of ways: by a tax exemption, tax rebate, tax deduction, reduced tax rate or by deferring a tax liability. Tax expenditures constitute revenue foregone rather than an outgoing of the Australian Government.

The cost of tax expenditure schemes cannot generally be reliably measured until the underlying tax revenue item, to which the tax expenditure is applied, becomes due and payable. Therefore, tax expenditures are not separately identified in this financial report. The Australian Government Treasury issues an annual Tax Expenditures Statement (unaudited), which provides a list of tax expenditures provided by the Australian Government to individuals and businesses.

#### Sales of goods and services

Revenue from the sale of goods is recognised when:

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

*Notes to the financial statements*

Revenue from the rendering of services is recognised by reference to the stage of completion of contracts at the reporting date. The revenue is recognised when:

- the amount of revenue, stage of completion and transaction costs incurred can be reliably measured; and
- the probable economic benefits of the transaction will flow to the entity.

**Interest and dividend income**

Interest revenue is recognised using the effective interest method as set out in AASB 139 *Financial Instruments: Recognition and Measurement*. Dividend revenue is recognised when the right to receive a dividend has been established.

**1.12 Expenses from transactions**

**Employee expenses and superannuation expenses**

Employee expenses include wages and salaries, annual leave, sick leave, long service leave and other post employment benefits.

Superannuation includes all superannuation expenses and associated interest costs.

AASB 124 *Related Party Disclosures* requires the disclosure of remuneration of key management personnel. This standard is not currently applicable to general purpose financial reports of not-for-profit public sector entities. The Australian Government has elected to disclose ministerial remuneration of Cabinet Ministers. The disclosure is provided in Note 6.

Ministerial remuneration is limited to Cabinet Ministers because they are considered the key management personnel of the Australian Government. Cabinet Ministers are responsible for planning, directing and controlling the activities of the Australian Government, directly or indirectly. The disclosure includes all Cabinet Ministers who have served during the financial year. For Cabinet Ministers who serve only part of the financial year, their ministerial remuneration will be pro rata based on their length of service as a Cabinet Minister during the financial year.

Ministerial remuneration comprises total salary (including the additional ministerial component); superannuation contributions; and motor vehicle costs including related fringe benefits tax.

Additional ministerial benefits that are not considered to be for personal benefit are excluded from the disclosure. This covers electorate allowance, staff, transport, printing and communication as well as costs incurred by portfolio departments on behalf of Ministers. Costs associated with the Lodge and Kirribilli House are not included, as these are national assets and incur costs regardless of who uses them. The Life Gold Pass entitlement and accumulation of the entitlement available for former

Prime Ministers has also been excluded. The overall value of these entitlements is included in employee provisions.

The Remuneration Tribunal provides information on the remuneration of Senators and Members of Parliament, including Ministers. This information is available on the Remuneration Tribunal website.

#### Depreciation and amortisation

Depreciation of non-financial physical assets (excluding inventories) is generally provided on a straight-line basis at rates based on the expected useful lives of those assets. Depreciation rate details are provided in Note 1.15.

Amortisation is provided on intangibles, leasehold improvements and on assets that are subject to finance leases and is calculated on a straight-line basis, generally over the useful life of the intangibles or the term of the relevant leases. Amortisation rate details are provided in Note 1.15.

#### Leases

A distinction is made between finance leases and operating leases. Finance leases effectively transfer from the lessor to the lessee substantially all the risks and rewards incidental to ownership of leased assets. An operating lease is a lease that is not a finance lease. In operating leases, the lessor effectively retains substantially all such risks and rewards of ownership.

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

Where an asset is acquired by means of a finance lease, the asset is capitalised at either the fair value of the leased asset or, if lower, the present value of minimum lease payments at the inception of the lease contract and a liability recognised at the same time and for the same amount in other borrowings. Lease payments are allocated between the principal component and the interest expense. The discount rate used is the interest rate implicit in the lease. Leased assets are amortised over the period of the lease.

#### Interest expense

Interest on outstanding borrowings and other finance costs directly related to borrowings are expensed as incurred. Interest expense includes interest on debt, discounts on loans and concessional instruments, unwinding of discount of provisions and amortisation of finance charges for finance leases.

### Current and capital transfers

Current and capital transfers include transactions such as grants, subsidies and other transfer payments made to local government, non-government schools, community groups, personal benefit payments made in cash to individuals and mutually agreed write-downs. Current transfers are amounts payable for current purposes for which no economic benefits are receivable in return. 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 (ABS GFS manual).

Where a transaction or event gives rise to a 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. Education grants to and through the States, Territories and other education providers such as universities are recognised on a due and payable basis, that is, when control of a grant passes to the grantee with grant conditions having been met. A commitment is recorded when the Australian Government has a binding agreement to make the grants but services have not been performed or criteria satisfied. Where grant monies are paid in advance of performance or eligibility, a prepayment is recognised.

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

### Grants under Australian Government/State funding arrangements

The majority of grants to or through State and Territory Governments are paid under the *Federal Financial Relations Act 2009*. There are four main types of grant payments under the Act, as follows:

- National Specific Purpose Payments (National SPPs) – a financial contribution to support a State or Territory to deliver services in a particular sector;
- National Partnership Payments (NPPs) – a financial contribution to a State or Territory in respect of a National Partnership agreement to support the delivery of specific projects, to facilitate reforms or to reward those jurisdictions that deliver on national reforms or achieve service delivery improvements;



- GST revenue payments – a financial contribution to a State or Territory that is available for use by the States and Territories for any purpose; and
- General revenue assistance (GRA) other than GST revenue payments – a financial contribution to a State or Territory that is available for use by the States and Territories for any purpose.

#### **Personal benefits**

Personal benefits are recorded when the government provides monetary transfers directly to households. Payments are determined in accordance with provisions under social security law and other legislation.

Indirect benefits are recorded where the government provides goods and services directly to households as social transfers in kind, which includes medical and pharmaceutical benefits. Under AASB 1049, indirect benefits are classified as payments for the supply of goods and services within gross operating expenses.

#### **1.13 Other economic flows**

Other economic flows are classified according to those flows that are included in the operating result or other comprehensive income (net worth) as follows:

- Other economic flows – included in operating result:
  - allowances for doubtful debts and bad debts unilaterally written off;
  - assets recognised for the first time;
  - realised or unrealised gains and losses from disposals;
  - fair value changes of financial instruments designated as ‘held at fair value through profit or loss’;
  - foreign exchange gains or losses;
  - amortisation of non-produced assets; and
  - net swap interest received.
- Other economic flows – other comprehensive income:
  - revaluations of non-current physical assets, intangible assets and agricultural assets;
  - actuarial gains and losses from superannuation defined benefit plans; and
  - fair value changes of financial instruments designated as ‘available for sale’.

## 1.14 Financial assets

### Recognition and measurement of financial assets

The classification of financial assets depends on the purpose for which they were acquired. The Australian Government classifies its financial assets into the following categories in accordance with AASB 139:

- *financial assets at fair value through profit or loss* – this category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss. Derivatives are categorised as held for trading unless they are designated as hedges;
- *loans and receivables* – non-derivative financial assets with fixed or determinable payments that are not quoted in an active market;
- *held-to-maturity investments* – non-derivative financial assets with fixed or determinable payments and fixed maturities where there is a positive intention and ability to hold to maturity; and
- *available-for-sale* – comprising principally marketable equity securities, are non-derivatives that are either designated in this category or not classified in any of the other categories.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are subsequently carried at amortised cost using the effective interest method less impairment. The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating the interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or where appropriate, a shorter period to derive the amortised cost of the financial asset.

For 'financial assets at fair value through profit or loss', gains and losses arising from changes in the fair value are included as other economic flows in the operating statement in the period in which they arise.

Financial assets reported by the Australian Government include the individually significant financial assets listed below.

### Cash and deposits

For the purpose of the statement of cash flows, 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 but which are held for longer-term investment purposes are classified as investments. Cash is recognised at its nominal amount. Interest is credited to revenue as it accrues.

#### Advances

Loans are recognised initially at fair value plus transaction costs and subsequently measured at amortised cost using the effective interest rate method, less any impairment loss, unless these loans have been designated as 'held at fair value through profit or loss'. The effective interest rate discounts estimated future cash receipts through the expected life of the loan to the net carrying amount of the loan but does not consider future credit losses. Interest is recognised on loans evenly in proportion to the amount outstanding over the period to repayment. Loans designated as 'held at fair value through profit or loss' include certain concessional loans.

The Higher Education Loan Programme (HELP) is designated as 'held at fair value through profit or loss'. Under AASB 139 *Financial Instruments: Recognition and Measurement*, 'fair value' is the amount for which a financial asset could be exchanged between knowledgeable, willing parties in an arm's length transaction. The estimate of the fair value of the HELP receivable is actuarially determined. In arriving at the fair value, the nominal or face value is adjusted for two main measures: an estimate of the face value of the debt which is not expected to be repaid; and the present value of projected future cash flows. The present value of future cash flows is calculated using a yield curve based on the reported yields of Commonwealth securities.

Multi-lateral aid agreements include agreements between the Australian Government and the International Development Association (IDA), Asian Development Fund (ADF), International Fund for Agriculture Development (IFAD), Global Environment Fund (GEF), Heavily Indebted Poor Countries (HIPC) and Montreal Protocol Multilateral Fund (MPMF). These agreements are accounted for as 'available for sale' investments based upon professional advice as to the estimated present value of the recoverable cash flows foregone.

#### Other receivables and accrued revenue

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. Collectability of debts is reviewed at balance date. An allowance is made when collection of the debt is judged to be less, rather than more, likely.

Accrued taxation revenue is recognised for taxation revenue items recognised in accordance with the Economic Transactions Method (ETM). Accrued taxation revenue is recognised when a reliable estimate can be determined for revenue accrued in relation to relevant balance dates falling within the reporting period, where an assessment will be raised in the following reporting period.

## *Notes to the financial statements*

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.

### **Investments, loans and placements**

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

Investments in domestic and foreign government securities, except those contracted for sale under repurchase agreements, are classified by the Reserve Bank of Australia as 'at fair value through profit or loss' under AASB 139. Investments in Australian domestic government securities are eliminated from this financial report on consolidation. Securities purchased and contracted for sale under repurchase agreements are classified under AASB 139 as 'loans and receivables' and valued at amortised cost. The difference between the purchase and sale price is accrued over the term of the agreement and recognised as interest revenue.

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.

The International Monetary Fund (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.

Investments in international financial institutions represent Australia's membership in the Asian Development Bank, the International Bank for Reconstruction and Development, the International Finance Corporation, Multilateral Investment Guarantee and the European Bank for Reconstruction and Development. These investments are recognised at historical cost translated into Australian dollars using the relevant foreign currency rates at balance date.

### **Equity investments**

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

At the GGS level, equity investments also include the Australian Government's ownership interest in public corporations in the PNFC and PFC sectors. The investments are eliminated at whole of government. Where the public corporation is a government business enterprise whose principal function is to engage in commercial activities in the private sector, the investment is measured at fair value, where fair value is reliably measurable. Investments in other public corporations are measured at the Australian Government's proportional interest in the net assets of the public corporation as at the end of the reporting period.

### Derecognition of financial assets and liabilities

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

### Impairment of financial assets

Financial assets are assessed for impairment at each balance date.

- *Financial assets held at amortised cost:* If there is objective evidence that an impairment loss has been incurred for loans and receivables or held to maturity investments held at amortised cost, then the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The carrying amount is reduced by way of an allowance account. The loss is recognised in the operating statement.
- *Financial assets held at cost:* If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument held at cost (because fair value cannot be reliably measured) or a linked derivative asset, then the amount of the impairment loss is 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.
- *Available for sale financial assets:* If there is objective evidence that an impairment loss on an available for sale financial asset has been incurred, then the amount of the difference between its cost, less principal repayments and amortisation, and its fair value, less any impairment loss previously recognised in the operating statement, is transferred from equity (net worth) to the operating statement.

## 1.15 Non-financial assets

### Inventory

Inventories held for sale are valued at the lower of cost and net realisable value. Inventories held for distribution are measured at cost, adjusted when applicable for any loss of service potential.

### Land, buildings, plant, equipment and infrastructure

Property, plant and equipment are stated at historical cost or valuation, except as otherwise indicated. The majority of Australian Government entities have valued these assets at fair value. Specialist military equipment is measured on a cost basis.

*Notes to the financial statements*

Details pertaining to valuations can be found in the audited financial statements of individual Australian Government controlled entities, which are tabled in Parliament. During 2013-14, material revaluations occurred within the following Australian Government controlled entities:

- Australian Broadcasting Corporation;
- Australian Federal Police;
- Australian National Maritime Museum;
- Australian Postal Corporation;
- Australian Rail Track Corporation Limited;
- Bureau of Meteorology;
- Commonwealth Scientific and Industrial Research Organisation;
- Defence Housing Australia;
- Department of Defence;
- Department of Finance;
- Department of Foreign Affairs and Trade;
- Department of Human Services;
- Department of Infrastructure and Regional Development;
- Department of the Environment;
- Indigenous Business Australia;
- National Gallery of Australia; and
- National Library of Australia.

The measurement basis used for each class of depreciable assets are as follows:

Land	Fair value: Market selling price
Buildings	Fair value: Market selling price or depreciated replacement cost
Specialist military equipment	Cost
Other plant, equipment and infrastructure	Fair value: Market selling price or depreciated replacement cost
Heritage and cultural assets	Fair value: Market selling price or depreciated replacement cost
Investment properties	Fair value: Market selling price

Assets were assessed for impairment at 30 June 2014. 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. Value in use is the present value of future cash flows expected to be derived from the asset. Where the future economic benefit of an asset is not primarily dependent on the asset's ability to generate future cash flows, and the asset would be replaced if the Australian Government was deprived of the asset, its value in use is taken to be its depreciated replacement cost.

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

Where restoration costs are incurred due to the acquisition, construction or development of a non-current asset, a provision is raised and recorded at that time as part of the cost of the asset where the cost is reliably measurable.

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

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

	2013-14	2012-13
Buildings(a)	1-200 years	1-200 years
Specialist military equipment	1-54 years	1-54 years
Other plant, equipment and infrastructure	1-112 years	1-112 years
Heritage and cultural assets	1-5,000 years	5-5,000 years

(a) This depreciation range includes certain leasehold improvements, which have depreciation rates of up to 50 per cent.

### Intangibles

Intangible assets are assets that have value, but do not have physical substance. In order to be recognised, an intangible asset must be either separable or arise from contractual or other legal rights. The Australian Government's intangibles comprise internally developed software for internal use, water entitlements and intangible assets acquired by public corporations (PNFCs and PFCs). When public corporations acquire

*Notes to the financial statements*

investments in controlled, jointly controlled or associated entities, and pay an amount greater than the fair value of the net identifiable assets of the entity, this excess is recognised as goodwill.

Intangibles are carried at cost. Software is amortised on a straight-line basis over its anticipated useful life. Water entitlements are classified as indefinite life intangibles and are therefore subject to annual impairment testing. Goodwill and other indefinite life intangibles are not amortised but tested for impairment on an annual basis. Other intangible assets are amortised from the date they are available for use.

Amortisation rates applying to each class of intangible are based on the following useful lives:

	2013-14	2012-13
Computer software	1-24 years	1-24 years
Other intangibles(a)	1-100 years (b)	1-100 years (b)

(a) Excludes goodwill and indefinite life intangibles.

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

### **1.16 Financial liabilities**

#### **Recognition and measurement of financial liabilities**

The classification of financial liabilities depends on the purpose for which the liabilities were entered into. The Australian Government classifies its financial liabilities in the following categories:

- financial liabilities at fair value through profit or loss; and
- other liabilities.

Financial liabilities reported by the Australian Government include the individually significant financial instruments listed below.

#### **Deposits held**

Deposits include deposits at call and term deposits. Deposits are classified as financial liabilities under AASB 139. 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.

#### **Government securities**

Government securities primarily comprise Treasury Bonds, Treasury Indexed Bonds and Treasury Notes. These liabilities are measured at fair value. 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.



## 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 and loss. Any difference between the final amounts paid to discharge the loan and the initial loan proceeds (including transaction costs) is recognised in the operating statement over the borrowing period using the effective interest method.

## Other interest bearing liabilities

The International Monetary Fund (IMF) special drawing right (SDR) allocation liability reflects the current value in Australian dollars of the Australian Government's liability to repay to the IMF 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. It is valued at the Australian dollar equivalent of its liability in SDRs. Interest expense is recognised as it accrues.

In the course of financial market operations, the Reserve Bank of Australia (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.

## **1.17 Provisions and payables**

A provision is a liability of uncertain timing or amount. Non-employee provisions are recognised at the best estimate of the expenditure required to settle the present obligation at the reporting date. If the effect is material, provisions are determined by discounting the expected future cash flows (adjusted for expected future risks) required to settle the obligation at a rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is treated as a borrowing cost.

Where some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the recovery receivable is recognised as an asset when it is virtually certain that the recovery will be received and is measured on a basis consistent with the measurement of the related provision.

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.

*Notes to the financial statements*

**Superannuation**

Australian Government sponsored superannuation schemes are detailed in Note 38.

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. Additional information on superannuation is included in Notes 19, 31 and 38.

**Other employee benefits**

Liabilities for 'short-term employee benefits' (as defined in AASB 119 *Employee Benefits*) 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. No provision has been made for sick leave because all sick leave is non-vesting and the average sick leave taken by employees is less than the annual entitlement for sick leave.

Liabilities for services rendered by employees are recognised at the reporting date to the extent that they have not been settled.

All other employee benefit 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.

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.

**Workers compensation — outstanding claims**

This consolidated financial report includes as a provision an estimate of outstanding workers compensation claims. The provision represents an estimate of the present value of future payments in respect of claims for events occurring before 30 June 2014 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 (IBNR) and anticipated claims handling costs.

**Australian currency on issue**

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.

#### Other provisions

Other individually significant provisions reported by the Australian Government include:

- provision for outstanding medical benefits (Department of Health, Medibank Private);
- provision for military compensation provisions (Department of Veterans' Affairs);
- payments made to States and Territories under the Natural Disaster Relief and Recovery Arrangements (Department of the Treasury);
- family tax benefit (Department of Social Services);
- pension bonus scheme (Department of Social Services);
- paid parental leave scheme (Department of Social Services);
- provision for Medical Indemnity (Department of Health);
- provision for restoration (primarily Department of Defence, Department of the Environment and the Australian Nuclear Science and Technology Organisation);
- provision for unfunded superannuation for Australian universities (Department of Education);
- provision for the reimbursement of employers for the long service leave entitlements of employees in the black coal industry (Coal Mining Industry [Long Service Leave Funding] Corporation); and
- provision for common law claims for asbestos related diseases (Comcare).

For details of these provisions, refer to the financial statements for the respective Australian Government reporting entities.

The financial report has not included a provision for outstanding claims under the *Terrorism Insurance Act 2003* because a declared terrorism incident has not been announced since the Act was enacted.

#### **1.18 Reserves**

##### Asset revaluation reserve

The asset revaluation reserve includes the net revaluation increments and decrements arising from the revaluation of property, plant and equipment in accordance with AASB 116 *Property, Plant and Equipment*.

*Notes to the financial statements*

**Foreign currency reserve**

The foreign currency translation reserve records the foreign currency differences arising from the translation of self-sustaining foreign operations, primarily foreign subsidiaries of Australia Postal Corporation.

**Investments reserve**

The investments reserve records the Australian Government's interest in portfolio authorities and companies.

**Statutory funds reserve**

The statutory funds reserve comprises amounts set aside out of operating surpluses under a specific Act or Statute.

**Other reserves**

Other reserves include amounts set aside out of operating surpluses for purposes other than those detailed above, including general reserves.

**1.19 Commitments**

Commitments are obligations or undertakings to make future payments to other entities that exist at the end of the reporting period but which have not been recognised as liabilities in the balance sheet.

Additional information on commitments is included in Note 35.

**1.20 Contingent liabilities and contingent assets**

Contingent liabilities and assets are not recognised in the balance sheet but are disclosed in the relevant notes. They are classified as contingent due to:

- uncertainty as to the existence of a liability or asset,
- an existing liability or asset in respect of which settlement is not probable, or
- an existing liability or asset where the amount cannot be reliably measured.

Remote contingencies are reported as part of this disclosure where the contingency is considered significant to the Australian Government, albeit remote.

A liability or asset may be recognised when its existence is confirmed by a future event, settlement becomes probable (virtually certain for assets) or reliable measurement becomes possible.

In this consolidated financial report, contingent assets are possible assets that arise from past events, the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Australian Government.

Additional information on contingencies is included in Note 36.

### **1.21 Insurance**

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

### **1.22 Rounding**

All amounts in this consolidated financial report have been rounded to the nearest million dollars, unless otherwise noted.

### **1.23 Comparative figures**

Unless otherwise stated, comparative figures are consistent with those presented in the 2012-13 Consolidated Financial Statements.

### **1.24 Balance dates**

Most entities controlled by the Australian Government have 30 June balance dates. Where entities have balance dates other than 30 June they are incorporated into this financial report as at their latest balance date. This approach has not materially affected the income and expenses to 30 June 2014 or the assets and liabilities reported as at 30 June 2014.

### **1.25 Materiality**

AASB 1031 *Materiality* states that an item or an aggregate of items is required to be recognised, measured or disclosed in a financial report where its omission, misstatement or non-disclosure could affect either resource allocation decisions by users of the report or the discharge of accountability by management or the governing body of an entity. It also provides guidance as to quantitative thresholds for determining the materiality of a particular item or aggregate of items. These financial statements are compiled having regard to AASB 1031. This includes consistent application between the CFS and the FBO.

### **1.26 Audit of Australian Government controlled entities**

This financial report is consolidated from the 2013-14 financial statements of Australian Government entities that were all audit signed, with the exception of the following entities, as at the time of publication:

- Northern Land Council;
- Tiwi Land Council;
- Outback Stores Pty Ltd; and
- Health Workforce Australia.

### **1.27 Compliance with the Constitution**

Section 83 of the Constitution provides that no amount may be paid out of the Consolidated Revenue Fund except under an appropriation made by law. After reviewing the circumstances of certain Section 83 breaches in 2010-11, the Australian Government considered that there was a risk of non-compliance with Section 83 of the Constitution in circumstances where payments are made that do not accord with conditions included in the relevant legislation. This could primarily occur with payments made from special appropriations and special accounts.

During 2011-12, government agencies developed individual plans to review exposure to risks of not complying with statutory conditions on payments from appropriations to their agency. As a result of that investigation, legislation was amended by the *Financial Framework Legislation Amendment Act (No 2) 2012* (FFLA Act No 2). The amendment ensured that payments made under certain Acts with a special appropriation would not be subject to Section 83 breaches in the future.

During 2012-13 and 2013-14, agencies continued to monitor their level of compliance with Section 83 of the Constitution across all legislation for which they have legislative responsibility. During 2012-13 additional legal advice was received that indicated there could be breaches of Section 83 under certain circumstances with payments for long service leave, goods and services tax and payments under determinations of the Remuneration Tribunal. Australian Government agencies have reviewed, or are in the process of reviewing their processes and controls over payments for these items to minimise the possibility for future breaches as a result of these payments. In general, agencies have determined that there is a low risk of the certain circumstances mentioned in the legal advice applying to their agency, although some breaches have been reported.

The following table shows the number and value of actual and potential breaches identified in 2013-14, and amounts recovered to date, for those agencies that have reported actual or potential non-compliance with Section 83 of the Constitution:

Notes to the financial statements

Commonwealth controlled entity	Actual breaches		Potential breaches		Recovered /Waived \$'000
	No.	Value \$'000	No.	Value \$'000	
Attorney-General's Department	-	-	132	252	-
Australian Customs and Border Protection Service	355	1,819	-	-	714
Australian Financial Security Authority	1	3	-	-	-
Australian Taxation Office	2	-	-	-	-
Department of Defence	-	-	503	625	638
Department of Education, Employment and Workplace Relations	-	-	89,375	28,683	2,198
Department of Education	-	-	1	125	-
Department of Finance	33	69	-	-	69
Department of Health	13	317	n/a (a)	18,463	9,670
Department of Human Services	4	28	-	-	7
Department of Industry	1	162	25,776	30,410	9,090
Department of Social Services	1	784	1,316,037	895,805	459,316
Department of the Prime Minister and Cabinet	2	117	-	-	116
Department of the Treasury	9	5	-	-	5
Department of Veterans' Affairs	-	-	n/a (a)	50,177	n/a (a)
<b>Total</b>	<b>421</b>	<b>3,304</b>	<b>1,431,824</b>	<b>1,024,540</b>	<b>481,824</b>

(a) The number of potential breaches has not been quantified.

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.

The Australian Government continues to have regard to developments in case law, including the High Court's most recent decision on Commonwealth expenditure in *Williams v Commonwealth [2014] HCA 23*, as they contribute to the larger body of law relevant to the development of Commonwealth programmes. In accordance with its general practice, the Government will continue to monitor and assess risk and decide on any appropriate actions to respond to risks of expenditure not being consistent with constitutional or other legal requirements.

During the 2013-14 financial year, The High Court in *Williams v Commonwealth [2014] HCA 23* held that payments made under the National Schools Chaplaincy and Student Welfare Programme were invalid on the grounds that they were not supported by a Commonwealth constitutional head of power. Consequently, the payments so made became debts owed to the Commonwealth. However, the Minister for Finance, the Hon Mathias Cormann, after considering all relevant matters, waived those debts under s34(1)(a) of the *Financial Management and Accountability Act 1997* on 19 June 2014. The amount waived was \$156.1 million (this is a separate amount to the Section 83 breaches reported above).

**Note 2: Taxation revenue**

	General Government		Australian Government	
	2014 \$m	2013 \$m	2014 \$m	2013 \$m
<b>Income taxation</b>				
Individuals and other withholding taxes				
Gross income tax withholding	157,761	150,297	157,761	150,297
Gross other individuals	37,561	36,283	37,561	36,283
less Refunds	(27,407)	(26,801)	(27,407)	(26,801)
Total individuals and other withholding taxation	167,915	159,779	167,915	159,779
Fringe benefits tax	4,285	3,970	4,285	3,970
Company tax	68,764	67,923	68,625	67,811
Superannuation funds	6,147	7,473	6,147	7,473
Resource rent taxes	1,785	1,914	1,785	1,914
<b>Total income taxation revenue</b>	<b>248,896</b>	<b>241,059</b>	<b>248,757</b>	<b>240,947</b>
<b>Indirect taxation</b>				
Sales taxes				
Goods and services tax	55,517	50,202	55,517	50,202
Wine equalisation tax	826	716	826	716
Luxury car tax	476	431	476	431
<b>Total sales taxes</b>	<b>56,819</b>	<b>51,349</b>	<b>56,819</b>	<b>51,349</b>
Excise duty				
Petrol	5,925	6,079	5,925	6,079
Diesel	8,603	8,640	8,603	8,640
Beer	1,948	1,958	1,948	1,958
Other excisable products	9,171	9,032	9,171	9,032
<i>Of which: Other excisable beverages(a)</i>	<i>879</i>	<i>914</i>	<i>879</i>	<i>914</i>
<b>Total excise duty revenue</b>	<b>25,647</b>	<b>25,709</b>	<b>25,647</b>	<b>25,709</b>
Customs duty				
Textiles, clothing and footwear	789	676	789	676
Passenger motor vehicles	921	892	921	892
Excise-like goods	6,258	5,458	6,258	5,458
Other imports	1,633	1,500	1,633	1,500
less Refunds and drawbacks	(319)	(354)	(319)	(354)
<b>Total customs duty revenue</b>	<b>9,282</b>	<b>8,172</b>	<b>9,282</b>	<b>8,172</b>
<b>Carbon pricing mechanism</b>	<b>4,744</b>	<b>5,047</b>	<b>4,744</b>	<b>5,047</b>
Other indirect taxation				
Agricultural levies	491	476	491	476
Other taxes	3,329	2,730	3,329	2,730
<b>Total other indirect taxation revenue</b>	<b>3,820</b>	<b>3,206</b>	<b>3,820</b>	<b>3,206</b>
Mirror taxes	498	484	498	484
less Transfers to States in relation to mirror tax revenue	(498)	(484)	(498)	(484)
Mirror tax revenue	-	-	-	-
<b>Total indirect taxation revenue</b>	<b>100,312</b>	<b>93,483</b>	<b>100,312</b>	<b>93,483</b>
<b>Total taxation revenue</b>	<b>349,208</b>	<b>334,542</b>	<b>349,069</b>	<b>334,430</b>

(a) Other excisable beverages are those not exceeding 10 per cent by volume of alcohol.



**Note 3: Sales of goods and services**

	General Government		Australian Government	
	2014	2013	2014	2013
	\$m	\$m	\$m	\$m
Sales of goods	1,453	1,283	8,247	7,367
Rendering of services	3,645	3,878	11,489	11,000
Operating lease rental	68	46	111	81
Other fees from regulatory services	3,409	3,679	3,409	3,679
<b>Total sales of goods and services revenue</b>	<b>8,575</b>	<b>8,886</b>	<b>23,256</b>	<b>22,127</b>
<b>Cost of goods sold</b>	<b>552</b>	<b>490</b>	<b>893</b>	<b>840</b>

**Note 4: Interest and dividend income**

	General Government		Australian Government	
	2014	2013	2014	2013
	\$m	\$m	\$m	\$m
<b>Interest from other governments</b>				
State and Territory debt	9	10	9	10
Housing agreements	121	139	121	139
General purpose advances	-	-	187	254
<b>Total interest from other governments</b>	<b>130</b>	<b>149</b>	<b>317</b>	<b>403</b>
<b>Interest from other sources</b>				
Advances	44	42	45	43
Deposits	39	131	114	249
Bills receivable	5	-	30	51
Bank deposits	257	181	337	274
Indexation of HELP receivable and other student loans	408	377	408	377
Securities	1,472	1,887	2,711	2,703
Other	984	877	504	558
<b>Total interest from other sources</b>	<b>3,209</b>	<b>3,495</b>	<b>4,149</b>	<b>4,255</b>
<b>Total interest</b>	<b>3,339</b>	<b>3,644</b>	<b>4,466</b>	<b>4,658</b>
<b>Dividends</b>				
Dividends from other public sector entities	1,695	972	-	-
Other dividends	2,410	2,107	2,475	2,175
<b>Total dividends</b>	<b>4,105</b>	<b>3,079</b>	<b>2,475</b>	<b>2,175</b>
<b>Total interest and dividend income</b>	<b>7,444</b>	<b>6,723</b>	<b>6,941</b>	<b>6,833</b>

**Note 5: Other sources of non-taxation revenue**

	General Government		Australian Government	
	2014	2013	2014	2013
	\$m	\$m	\$m	\$m
Industry contributions	75	56	75	56
Royalties	1,823	1,798	1,823	1,799
Seigniorage	112	134	112	134
Child support payments	1,507	1,438	1,507	1,438
Other	3,326	3,583	3,366	3,630
<b>Total other sources of non-taxation revenue</b>	<b>6,843</b>	<b>7,009</b>	<b>6,883</b>	<b>7,057</b>

**Note 6: Employee and superannuation expenses**

	General Government		Australian Government	
	2014 \$m	2013 \$m	2014 \$m	2013 \$m
<b>Wages and salaries expenses</b>	<b>18,823</b>	<b>18,486</b>	<b>22,868</b>	<b>22,207</b>
<b>Other operating expenses</b>				
Leave and other entitlements	2,614	2,624	3,380	3,333
Separations and redundancies	580	261	720	293
Workers compensation premiums and claims	740	1,012	784	1,062
Other	2,083	1,977	2,210	2,106
<b>Total other operating expenses</b>	<b>6,017</b>	<b>5,874</b>	<b>7,094</b>	<b>6,794</b>
<b>Superannuation expenses</b>				
Superannuation	6,372	8,403	6,923	8,760
Superannuation interest	8,214	6,729	8,214	6,729
<b>Total superannuation expenses</b>	<b>14,586</b>	<b>15,132</b>	<b>15,137</b>	<b>15,489</b>
<b>Total employee and superannuation expense</b>	<b>39,426</b>	<b>39,492</b>	<b>45,099</b>	<b>44,490</b>

Employee expenses include salary and allowances received or receivable by 39 Cabinet Ministers (including 20 ministers who served under the former Government which ceased on 18 September 2013) totalling \$8.8 million during 2013-14 (25 Cabinet Ministers during 2012-13: \$9.7 million).

**Note 7: Depreciation and amortisation expenses**

	General Government		Australian Government	
	2014 \$m	2013 \$m	2014 \$m	2013 \$m
<b>Depreciation</b>				
Specialist military equipment	2,539	2,688	2,539	2,688
Buildings	1,422	1,351	1,531	1,443
Other infrastructure, plant and equipment	1,394	1,430	1,993	1,869
Heritage and cultural assets	51	50	51	50
<b>Total depreciation</b>	<b>5,406</b>	<b>5,519</b>	<b>6,114</b>	<b>6,050</b>
<b>Total amortisation</b>	<b>998</b>	<b>909</b>	<b>1,441</b>	<b>1,207</b>
<i>Add back</i> Amortisation of non-produced assets	(64)	(31)	(133)	(95)
<b>Total depreciation and amortisation expense</b>	<b>6,340</b>	<b>6,397</b>	<b>7,422</b>	<b>7,162</b>

**Note 8: Supply of goods and services**

	General Government		Australian Government	
	2014 \$m	2013 \$m	2014 \$m	2013 \$m
Supply of goods and services	24,230	22,292	28,108	25,343
Operating lease rental expenses	2,549	2,626	2,895	2,866
Health care payments	5,220	5,214	5,220	5,214
Benefits to households in goods and services	40,943	39,273	40,943	39,273
Other	2,192	2,189	7,369	6,997
<b>Total payment for supply of goods and services</b>	<b>75,134</b>	<b>71,594</b>	<b>84,535</b>	<b>79,693</b>

**Note 9: Interest expense**

	General Government		Australian Government	
	2014 \$m	2013 \$m	2014 \$m	2013 \$m
<b>Interest on debt</b>				
Government securities	13,390	12,225	13,148	11,896
Loans	10	10	143	131
Taxation overpayments	230	503	230	503
Exchange settlement funds	-	-	342	32
Deposits	-	-	29	44
Other	32	30	138	99
<b>Total interest on debt</b>	<b>13,662</b>	<b>12,768</b>	<b>14,030</b>	<b>12,705</b>
Discount on concessional instruments	1,060	870	1,060	870
Unwinding of discount and other	227	241	234	276
Finance charges for finance leases	101	68	322	131
<b>Other financing costs</b>	<b>1,388</b>	<b>1,179</b>	<b>1,616</b>	<b>1,277</b>
<b>Total interest expense</b>	<b>15,050</b>	<b>13,947</b>	<b>15,646</b>	<b>13,982</b>

**Note 10: Grants expense**

	General Government		Australian Government	
	2014 \$m	2013 \$m	2014 \$m	2013 \$m
<b>Current grants expense</b>				
State and Territory governments	88,454	84,869	88,454	84,869
Local governments	15	16	15	16
Private sector	1,919	1,799	1,919	1,799
Overseas	4,173	4,085	4,173	4,085
Non-profit organisations	3,966	3,132	3,966	3,132
Multi-jurisdictional sector	9,634	9,108	9,634	9,108
Other	7,799	7,689	7,749	7,580
<b>Total current grants expense</b>	<b>115,960</b>	<b>110,699</b>	<b>115,910</b>	<b>110,590</b>
<b>Capital grants expense</b>				
Mutually agreed write-downs	2,627	794	2,477	794
Other capital grants				
State and Territory governments	8,765	7,032	8,765	7,032
Local governments	714	406	714	406
Private sector	34	48	34	48
Multi-jurisdictional sector	97	92	97	92
Other	9,122	311	322	311
Total other capital grants expense	18,732	7,888	9,932	7,888
<b>Total capital grants expense</b>	<b>21,359</b>	<b>8,682</b>	<b>12,409</b>	<b>8,682</b>
<b>Total grants expense</b>	<b>137,319</b>	<b>119,381</b>	<b>128,319</b>	<b>119,272</b>

**Note 11: Expenses by function<sup>(a)</sup>**

	General Government		Australian Government	
	2014	2013	2014	2013
	\$m	\$m	\$m	\$m
General public services	34,091	25,223	35,667	26,339
Defence	22,146	21,146	23,064	22,057
Public order and safety	4,369	3,923	4,477	4,031
Education	29,669	28,468	29,669	28,468
Health	63,791	61,303	70,252	67,264
Social security and welfare	140,561	131,803	140,561	131,803
Housing and community amenities	6,044	5,278	6,045	5,281
Recreation and culture	3,749	3,553	3,749	3,553
Fuel and energy	6,749	5,955	6,749	5,955
Agriculture, forestry and fishing	2,384	2,407	2,384	2,407
Mining, manufacturing and construction	3,451	2,920	3,548	3,016
Transport and communication	8,408	5,022	17,935	12,788
Other economic affairs	10,838	10,631	10,444	10,263
Other purposes	75,571	72,647	64,858	70,671
<b>Total expenses</b>	<b>411,821</b>	<b>380,279</b>	<b>419,402</b>	<b>393,896</b>

(a) Refer Note 46 for description of each function.

**Note 12: Net write-down of assets (including bad and doubtful debts)**

	General Government		Australian Government	
	2014	2013	2014	2013
	\$m	\$m	\$m	\$m
<b>FINANCIAL ASSETS</b>				
<b>Receivables - bad and doubtful debts</b>				
Goods and services	99	89	102	90
Taxes due	5,474	5,097	5,474	5,097
Other	719	359	719	359
<b>Total receivables - bad and doubtful debts</b>	<b>6,292</b>	<b>5,545</b>	<b>6,295</b>	<b>5,546</b>
Net write-down/(reversal) and impairment arising from the revaluation of investments and other financial assets	(159)	12	(170)	8
<b>Total financial write-down and impairment</b>	<b>6,133</b>	<b>5,557</b>	<b>6,125</b>	<b>5,554</b>
<b>NON-FINANCIAL ASSETS</b>				
Inventories	379	417	388	427
Land	-	1	-	16
Buildings	58	68	63	107
Specialist military equipment	466	309	467	309
Other infrastructure, plant and equipment	144	51	179	557
Heritage and cultural assets	6	-	6	-
Other non-financial assets	2	5	2	6
Intangibles	2	376	117	398
Investment properties	31	16	31	16
<b>Net write-down, impairment and fair value losses arising from the revaluation of non-financial assets</b>	<b>1,088</b>	<b>1,243</b>	<b>1,253</b>	<b>1,836</b>
<b>Total net write-down and impairment of assets and fair value losses</b>	<b>7,221</b>	<b>6,800</b>	<b>7,378</b>	<b>7,390</b>

**Note 13: Net gain/(loss) from the sale of assets**

	General Government		Australian Government	
	2014 \$m	2013 \$m	2014 \$m	2013 \$m
<b>FINANCIAL ASSETS</b>				
Net gains/(losses) from sale of investments	6,111	(129)	6,145	(436)
Net gains/(losses) from sale of receivables	-	-	-	-
<b>Total net gains/(losses) from sale of financial assets</b>	<b>6,111</b>	<b>(129)</b>	<b>6,145</b>	<b>(436)</b>
<b>NON-FINANCIAL ASSETS</b>				
Proceeds from sale of land and buildings	135	147	358	159
less selling costs of sale of land and buildings	(8)	(10)	(44)	(11)
less written down value of land and buildings sold	(141)	(142)	(171)	(132)
<b>Net gains/(losses) from sale of land and buildings</b>	<b>(14)</b>	<b>(5)</b>	<b>143</b>	<b>16</b>
Proceeds from sale of investment properties	15	5	17	73
less selling costs of investment properties	-	(1)	-	(1)
less written down value of investment properties	(16)	(5)	(16)	(45)
<b>Net gains/(losses) from sale of investment properties</b>	<b>(1)</b>	<b>(1)</b>	<b>1</b>	<b>27</b>
Proceeds from sale of infrastructure, plant and equipment	77	35	104	41
less selling costs of infrastructure, plant and equipment	(11)	(4)	(11)	(4)
less written down value of infrastructure, plant and equipment sold	(84)	(54)	(108)	(65)
<b>Net gains/(losses) from sale of infrastructure, plant and equipment</b>	<b>(18)</b>	<b>(23)</b>	<b>(15)</b>	<b>(28)</b>
Proceeds from sale of intangibles	5	1,484	5	1,485
less selling costs of intangibles	-	-	-	-
less written down value of intangibles	(7)	(2)	(7)	(4)
<b>Net gains/(losses) from sale of intangibles</b>	<b>(2)</b>	<b>1,482</b>	<b>(2)</b>	<b>1,481</b>
less written down value of heritage and cultural assets	(2)	-	(2)	-
<b>Net gains/(losses) from sale heritage and cultural assets</b>	<b>(2)</b>	<b>-</b>	<b>(2)</b>	<b>-</b>
Proceeds from sale of biological assets	9	13	9	13
less selling costs of biological assets	-	-	-	-
less written down value of biological assets	(9)	(13)	(9)	(13)
<b>Net gains/(losses) from sale of biological assets</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total net gains/(losses) from sale of non-financial assets</b>	<b>(37)</b>	<b>1,453</b>	<b>125</b>	<b>1,496</b>
<b>Net gains/(losses) from sale of assets</b>	<b>6,074</b>	<b>1,324</b>	<b>6,270</b>	<b>1,060</b>
Add back selling costs included in expenses from transactions	19	15	55	16
<b>Net gains/(losses) from sale of assets in other economic flows</b>	<b>6,093</b>	<b>1,339</b>	<b>6,325</b>	<b>1,076</b>

**Note 14: Net foreign exchange gains/(losses)**

	General Government		Australian Government	
	2014	2013	2014	2013
	\$m	\$m	\$m	\$m
<b>Net foreign exchange gains/(losses)</b>				
Non-speculative	(402)	(2,284)	(245)	1,678
<b>Net foreign exchange gains/(losses)</b>	<b>(402)</b>	<b>(2,284)</b>	<b>(245)</b>	<b>1,678</b>

**Note 15: Net swap interest received**

	General Government		Australian Government	
	2014	2013	2014	2013
	\$m	\$m	\$m	\$m
<b>Net swap interest</b>				
Net swap interest revenue	612	387	698	472
Net swap interest expense	(1,136)	(371)	(1,178)	(427)
<b>Net swap interest received</b>	<b>(524)</b>	<b>16</b>	<b>(480)</b>	<b>45</b>

**Note 16: Other gains/(losses)**

	General Government		Australian Government	
	2014	2013	2014	2013
	\$m	\$m	\$m	\$m
Fair value gains				
- financial instruments	1,005	25,113	1,130	25,298
Fair value gains - biological assets	11	4	11	4
Fair value gains - investment properties	8	4	22	15
Net actuarial gains/(losses)	(1,584)	(1,546)	(1,584)	(1,546)
Revaluation of superannuation liability	(7,797)	-	(7,797)	-
Other	35	114	35	114
<b>Total other gains/(losses)</b>	<b>(8,322)</b>	<b>23,689</b>	<b>(8,183)</b>	<b>23,885</b>

**Note 17: Fair value measurement**

**(a) Fair value measurement**

The following tables provide an analysis of assets and liabilities that are measured at fair value. The different levels of the fair value hierarchy are defined below.

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at measurement date.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Unobservable inputs for the asset or liability.

**Australian Government**

	Level 1: Market Values 2014 \$m	Level 2: Market Inputs 2014 \$m	Level 3: Non Market Inputs 2014 \$m	Total 2014 \$m
<b>Financial assets:</b>				
Receivables	-	1,949	27,583	29,532
Investments, loans and placements				
Deposits	146	6,628	-	6,774
Government securities	55,448	2,741	-	58,189
Debentures	200	659	-	859
International Monetary Fund quota	-	-	5,306	5,306
Collective investment vehicles	-	273	32,020	32,293
Other interest bearing securities	43	27,453	4,054	31,550
Other	3,790	3,131	2,855	9,776
Equity investments				
Investments - Shares	38,346	120	1,467	39,933
Investment in public corporations	-	-	-	-
Equity accounted investments	-	-	210	210
<b>Total financial assets</b>	<b>97,973</b>	<b>42,954</b>	<b>73,495</b>	<b>214,422</b>
<b>Non-financial assets:</b>				
Land	-	8,842	1,004	9,846
Buildings	-	4,465	22,916	27,381
Plant, equipment and infrastructure	-	1,867	23,073	24,940
Investment property	-	375	-	375
Biological assets	-	36	-	36
Heritage and cultural assets	-	8,161	2,664	10,825
Assets held for sale	11	132	-	143
<b>Total non-financial assets</b>	<b>11</b>	<b>23,878</b>	<b>49,657</b>	<b>73,546</b>
<b>Total fair value measurements of assets in the statement of financial position</b>	<b>97,984</b>	<b>66,832</b>	<b>123,152</b>	<b>287,968</b>
<b>Financial liabilities:</b>				
Fair value through profit and loss				
Government securities	314,024	32,578	-	346,602
Loans	-	1,951	224	2,175
Other debt	21	630	12	663
Payables	13	87	1,683	1,783
<b>Total financial liabilities</b>	<b>314,058</b>	<b>35,246</b>	<b>1,919</b>	<b>351,223</b>
<b>Total fair value measurements of liabilities in the statement of financial position</b>	<b>314,058</b>	<b>35,246</b>	<b>1,919</b>	<b>351,223</b>

Notes to the financial statements

**General Government**

	Level 1: Market Values 2014 \$m	Level 2: Market Inputs 2014 \$m	Level 3: Non Market Inputs 2014 \$m	Total 2014 \$m
<b>Financial assets:</b>				
Receivables	-	1,243	26,727	27,970
Investments, loans and placements				
Deposits	146	33,493	-	33,639
Government securities	-	-	-	-
Debentures	-	-	-	-
International Monetary Fund quota	-	-	5,306	5,306
Collective investment vehicles	-	273	32,020	32,293
Other interest bearing securities	43	27,453	4,054	31,550
Other	3,694	1,797	2,377	7,868
Equity investments				
Investments - Shares	38,159	18	1,119	39,296
Investment in public corporations	-	-	35,746	35,746
Equity accounted investments	-	-	210	210
<b>Total financial assets</b>	<b>42,042</b>	<b>64,277</b>	<b>107,559</b>	<b>213,878</b>
<b>Non-financial assets:</b>				
Land	-	8,539	792	9,331
Buildings	-	3,046	21,677	24,723
Plant, equipment and infrastructure	-	1,133	11,918	13,051
Investment property	-	183	-	183
Biological assets	-	36	-	36
Heritage and cultural assets	-	8,161	2,664	10,825
Assets held for sale	9	86	-	95
<b>Total non-financial assets</b>	<b>9</b>	<b>21,184</b>	<b>37,051</b>	<b>58,244</b>
<b>Total fair value measurements of assets in the statement of financial position</b>	<b>42,051</b>	<b>85,461</b>	<b>144,610</b>	<b>272,122</b>
<b>Financial liabilities:</b>				
Fair value through profit and loss				
Government securities	318,691	32,578	-	351,269
Loans	-	-	-	-
Other debt	20	448	8	476
Payables	13	82	1,659	1,754
<b>Total financial liabilities</b>	<b>318,724</b>	<b>33,108</b>	<b>1,667</b>	<b>353,499</b>
<b>Total fair value measurements of liabilities in the statement of financial position</b>	<b>318,724</b>	<b>33,108</b>	<b>1,667</b>	<b>353,499</b>



### Level 3 financial assets

Australian Government Level 3 financial assets at 30 June 2014 included:

- unlisted managed investment schemes and collective investment vehicles held by the Future Fund which are re-measured based on the estimated fair value of the net assets of each scheme or vehicle at the reporting date. In determining fair value, reference is made to the underlying unit price provided by the Manager (where available), associated Manager valuation reports and the most recent audited financial statements of the scheme. Collective investment vehicles held by the Future Fund were valued at \$32,293 million at 30 June 2014 (2013: \$29,498 million);
- amounts receivable under the Higher Education Loan Programme (HELP) which are actuarially determined (refer Note 1). The HELP receivable was valued at \$25,147 million at 30 June 2014 (2013: \$21,593 million); and
- subscription based membership rights (controlled) held by the Australian Government in accordance with the articles of association for the International Development Association (IDA) and the Asian Development Fund (ADF) which are measured at fair value based on professional valuation advice as to the estimated present value of the recoverable cash flows foregone. The subscription was valued at \$1,545 million at 30 June 2014 (2013: \$1,493 million).

In addition, certain entities apply models in the valuation of derivative instruments.

At the general government sector level, Level 3 financial assets also included equity investments in public corporations. Where the public corporation is a government business enterprise whose principal function is to engage in commercial activities in the private sector, the investment has been measured at fair value, where fair value is reliably measurable. Investments in other public corporations have been measured at the Australian Government's proportional interest in the net assets of the public corporation at 30 June. These investments are eliminated at the whole of government level.

Fair value measurements – highest and best use differs from current use for non-financial assets

The highest and best use for non-financial assets is the same as their current use.

### **(b) Level 1 and level 2 transfers for recurring fair value measurement**

There have been no material transfers between Level 1 and Level 2 fair value hierarchy categories during the reporting period.

(c) Valuation technique and inputs for level 2 and level 3 fair value measurements

The following table summarises the valuation techniques used in determining fair value across all agencies.

Level 2 and 3 fair value measurements - valuation technique and the inputs used for assets and liabilities

	Category (Level 2 or Level 3)	Fair value		Valuation technique(s)(a)	Inputs used(b)	Range (weighted average)(c)
		General Government \$m	Australian Government \$m			
<b>Financial assets</b>						
Receivables	2	1,243	1,949	Discounted cash flow	Principal due Discount rate	N/A N/A
	3	26,727	27,583	Discounted cash flow	Principal due Repayment patterns Debt not expected to be repaid Future CPI growth Discount rate	N/A Refer footnote(d) 22.1%(d) 2.5%(d) 9.5% - 12.5%(e)
Investments, loans and placements						
Deposits	2	33,493	6,628	Market Approach	Market transactions	N/A
Government securities	2	-	2,741	Market Approach	Market transactions	N/A
Debentures	2	-	659	Market Approach	Market transactions	N/A
International Monetary Fund quota	3	5,306	5,306	Cost approach	Cost	N/A
Collective investment vehicles	2	273	273	Market Approach	Market transactions	N/A
Other interest bearing securities	3	32,020	32,020	Market Approach	Net assets of entities	Refer footnote(f)
	2	27,453	27,453	Market Approach	Market transactions	N/A
	3	4,054	4,054	Market Approach	Net assets of entities	Refer footnote(f)
Other	2	1,797	3,131	Market Approach	Market transactions	N/A
	3	2,217	2,532	Net assets of entities	Net assets of entities	N/A
		160	323	Market Approach	Adjusted market transaction	Refer footnote(b)

		Fair value		Valuation technique(s)(a)		Inputs used(b)		Range (weighted average)(c)	
Category (Level 2 or Level 3)	General Government \$m	Australian Government \$m							
Equity investments									
Investments - Shares	18	120	Market approach	Market transactions			N/A		
	1,119	1,467	Market approach	Adjusted market transaction			Refer footnote(b)		
Investment in public corporations (General Government only)	31,313		- Net assets of entities	Net assets of entities			N/A		
	4,433		- Discounted cash flow	Cash flow growth			2.5% - 5%(g)		
				Weighted average cost of capital			10% - 10.75%(g)		
Equity accounted investments	210	210	Net assets of entities	Net assets of entities			N/A		
<b>Non-financial assets</b>									
Land									
	8,338	8,641	Market approach	Market transactions			N/A		
	201	201	Income Approach	Market transactions			N/A		
	792	1,004	Market approach	Adjusted market transaction			Refer footnote(b)		
Buildings	2,241	3,660	Market approach	Market transactions			N/A		
	418	418	Income approach	Market transactions			N/A		
				Replacement cost of new assets			N/A		
	387	387	Cost approach	Market transactions			N/A		
				Replacement cost of new assets			N/A		
	21,243	22,482	Depreciated replacement cost	Consumed economic benefit			N/A		
							0.5% - 100% (3.43%)(h)		
	327	327	Market approach	Adjusted market transaction			Refer footnote(b)		
	107	107	Income approach	Capitalisation rate			7.05% - 10% (8.64%)(i)		
				Per square metre cost			N/A		

Notes to the financial statements

		Fair value		Valuation technique(s)(a)		Inputs used(b)	Range (weighted average)(c)
Category (Level 2 or Level 3)	General Government \$m	Australian Government \$m					
Plant, equipment and infrastructure	662	1,396	Market approach	Per square metre cost		N/A	
				Replacement cost of new assets		N/A	
				Market transactions		N/A	
				Consumed economic benefit		N/A	
				Replacement cost of new assets		N/A	
				Replacement cost of new assets		N/A	
				Consumed economic benefit		0.91% - 100% (7.02%)(l)	
Investment property	183	375	Market approach	Market transactions		N/A	
				Capitalisation rate		N/A	
				Future earnings		N/A	
Biological assets	36	36	Market approach	Market transactions		N/A	
Heritage and cultural assets	7,159	7,159	Market approach	Market transactions		N/A	
				Replacement cost of new assets		N/A	
				Replacement cost of new assets		N/A	
				Consumed economic benefit		0.12% - 33.3% (1.08%)(k)	
Assets held for sale	1,198	1,198	Market approach	Adjusted market transaction		Refer footnote(b)	
				Market transactions		N/A	

		Fair value						
Category (Level 2 or Level 3)	General Government \$m	Australian Government \$m	Valuation technique(s)(a)		Inputs used(b)	Range (weighted average)(c)		
			General Government \$m	Australian Government \$m				
<b>Financial liabilities</b>								
Fair value through profit and loss								
Government securities								
Loans	32,578	32,578	Market approach	Market transactions		N/A		
	-	1,951	Market approach	Market transactions		N/A		
	-	224	Market approach	Adjusted market transaction		Refer footnote(b)		
Other debt	448	630	Market approach	Market transactions		N/A		
	8	12	Market approach	Adjusted market transaction		Refer footnote(b)		
Payables	82	87	Discounted cash flow	Discount rate		N/A		
	1,659	1,683	Discounted cash flow	Discount rate		9.5% - 12.5%(l)		
				Bond rate 10 year		N/A		

## Notes to the financial statements

- (a) The following valuation techniques were used by agencies to determine fair values:
- **Cost Approach:** The amount required currently to replace the service capacity of an asset;
  - **Depreciated Replacement Cost:** The amount a market participant would be prepared to pay to acquire or construct a substitute asset of comparable utility, adjusted for obsolescence;
  - **Income Approach:** Converts future amounts (cash flows 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;
  - **Discounted Cash Flows:** The net cash flows over an appropriate timeframe together with a terminal value for the asset at the end of the forecast period, discounted back to the measurement date, resulting in a net present value for the asset;
  - **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; or
  - **Net Assets of Entities:** The value of the company's assets less the value of its liabilities.
- (b) The following are unobservable inputs for Level 3 categorised items:
- **Consumed Economic Benefits:** Physical deterioration, functional or technical obsolescence and conditions of the economic environment specific to the asset;
  - **Market Transactions:** Market transactions of comparable assets, small adjustment to reflect differences in price sensitive characteristics (eg. size, condition etc.);
  - **Adjusted Market Transactions:** Market transactions of comparable assets, involving significant professional judgement to adjust for other factors (eg. economic conditions) and their impact on price sensitive characteristics;
  - **Discount rate:** The rate at which cash flows are discounted back to the value at measurement date;
  - **Net Assets of Entities:** The value of the company's assets less the value of its liabilities;
  - **Debt not expected to be repaid:** the estimated proportion of outstanding debt that will not be repaid;
  - **Future CPI growth;**
  - **Repayment patterns;**
  - **Cash flow growth:** the rate at which cash flows will increase over a given period; or
  - **Weighted average cost of capital:** the average rate of return a company is expected to pay to all its security holders to finance its assets.
- (c) Range and weighted average are only provided for significant unobservable inputs of items categorised as Level 3. Weighted averages are presented in brackets.
- (d) The inputs reported here are for HELP loans receivable which comprise 91 per cent of the reported balance. The unobservable inputs identified include repayment patterns, debt not expected to be repaid and future CPI growth. As repayment patterns are actuarially determined from a range of sources, it is not possible to list ranges or weighted averages.
- (e) Represents the discount range applied to IDA/ADF loan portfolio which comprises approximately 6 per cent of this balance. No discount rate is provided for HELP loans and other level 3 receivables as the discount rates are drawn from observable inputs.
- (f) Due to the diverse nature of the fund's investments, it is not possible to provide a range of inputs.
- (g) Represents the range of cash flow growth and cost of capital used by the Department of Finance in determining the fair value under this valuation technique.
- (h) Represents the range of consumed economic benefit per annum used in determining the fair value for the Department of Defence, the Department of Parliamentary Services, the Department of Immigration and Border Protection and the Commonwealth Scientific and Industrial Research Organisation which comprise approximately 72 per cent of this balance.
- (i) Represents the range of capitalisation rates used in determining the fair value for the Attorney General's Department, Grains Research and Development Corporation and the Special Broadcasting Service which comprises 100 per cent of this balance.

- (i) Represents the range of consumed economic benefit per annum used in determining the fair value for the Department of Defence, NBN Co, Australian Rail Track Corporation Ltd and Airservices Australia which comprise approximately 75 per cent of this balance.
- (k) Represents the range of consumed economic benefit per annum used in determining the fair value for the Australian War Memorial, the National Library of Australia, the Department of Infrastructure and Regional Development and the Australian National Maritime Museum which comprises approximately 72 per cent of this balance.
- (l) Represents the discount range applied to IDA/ADF loan portfolio which comprises approximately 99 per cent of this balance.

## **Recurring and non-recurring Level 3 fair value measurements - valuation processes**

### **Financial assets**

The fair value of the Higher Education Loan Programme (HELP) receivable that makes up 91 per cent of the Level 3 receivables balance is calculated each year by actuarial assessment. The two main measures impacting on the calculation of the HELP asset are the face value of the debt not expected to be repaid and the fair value of the remaining receivable, calculated as the present value of projected future cash flows.

The fair value of the IDA and ADF receivables that comprise six per cent of the level 3 receivables balance has been determined on a basis consistent with previous years, using professional valuation advice.

Investments in public corporations that have been valued using a discounted net cash flow technique are assumed to be a cash generating unit. 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. Weighted Average Cost of Capital is calculated based on a number of inputs derived from either professional judgement or observable historical market data of comparable entities.

Investments categorised as level 3 are valued using the net assets as the inputs 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. Collective investments vehicles, which comprise a significant proportion of the investments valued with this technique, are pooled investments with a variety of underlying assets. The diverse nature of these investments results in them being classified as level 3. The valuation techniques used by the investment managers are consistent with the overall accounting policy.

Level 3 investments that have been valued using market approach are based on the share value of the relevant institution.

### **Non-financial assets**

Government agencies engage professional valuers to undertake comprehensive valuations of these classes of non-financial assets as specified in their respective accounting policy notes. Valuations are conducted 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. The regularity of independent valuations depends upon the volatility of movements in market values for the relevant assets. Professional valuers were engaged as required to provide assurance that the models developed comply with requirements of AASB 13.

Non-financial assets valued using the market approach utilise market transactions of similar assets to determine fair value. Due to the sensitive nature of the assets within



this class, precise location or details have not been disclosed. Fair value measurements have been developed based on analysed prices in the assets' general locality. The values are based on sales evidence and applied using professional judgement.

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 Depreciated Replacement Cost (DRC) approach. Under the DRC approach, the estimated cost to replace the asset has been calculated and then adjusted to take into account obsolescence (accumulated depreciation). The obsolescence has been determined based on professional judgement regarding physical, economic and external obsolescence factors relevant to the asset under consideration.

#### Financial liabilities

Financial liabilities categorised as Level 3 have had their fair value determined using market interest rates and valuation techniques that incorporate discounted cash flows. They have been classified Level 3 because they have either complex interest rate formulas that include foreign exchange rates, a variety of discount rates, use the Nikkei index or they have knockout or callable features.

#### **Recurring Level 3 fair value measurements - sensitivity of inputs**

Receivables – Repayment patterns, debt expected to not be repaid, future CPI growth and discount rate

Significant unobservable inputs used in the fair value measurement of receivables are the repayment pattern, debt expected to not be repaid, future CPI growth and the discount rate. A significant increase (or decrease) in these inputs or adjustments would result in significantly lower (or higher) fair value measurements.

Investments in public corporations – cash flow growth and weighted average cost of capital

Significant unobservable inputs used in the fair value measurement of investments in public corporations are the cash flow growth and the weighted average cost of capital. A significant increase (or decrease) in these inputs or adjustments would result in significantly lower (or higher) fair value measurements.

Buildings, plant, equipment and infrastructure, and heritage and cultural assets – consumed economic benefit

A significant unobservable input used in the fair value measurement of these classes of assets is consumed economic benefit. A significant increase (or decrease) in the input or adjustments would result in significantly lower (or higher) fair value measurements.

*Notes to the financial statements*

**Buildings – capitalisation rate**

A significant unobservable input used in the fair value measurement of this class of assets is the capitalisation rate. A significant increase (or decrease) in the input or adjustments would result in significantly lower (or higher) fair value measurements.

**Payables – discount rate**

A significant unobservable input used in the fair value measurement of payables is the discount rate. A significant increase (or decrease) in the input or adjustments would result in significantly lower (or higher) fair value measurements.

**Recurring Level 3 fair value measurements - sensitivity analysis for financial assets and liabilities**

Changing significant unobservable inputs to the level 3 hierarchy valuations of financial assets and liabilities held at fair value to reasonably possible alternate assumptions would not significantly change amounts recognised in net cost of service or other comprehensive income.

Further details around the sensitivity in regards to the market risks associated with financial assets and liabilities can be found in Note 37 Financial Instruments.

**(d) Reconciliation for recurring level 3 fair value measurements**

The following tables provide reconciliations for the movement in balances for assets and liabilities classified as level 3.

**Recurring Level 3 fair value measurements - reconciliation for assets****Australian Government**

		Financial Assets										
		International Monetary Fund quota	Collective investment vehicles	Other interest bearing securities	Other	Investments Shares	Investment in public corporations	Equity accounted investments	Total			
Receivables	2014	2014	2014	2014	2014	2014	2014	2014	2014	2014		
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m		
<b>Financial assets at fair value</b>												
Opening balance	24,767	5,247	28,954	3,994	737	1,553	-	192	65,444			
Purchases / Payments	6,511	-	8,034	1,847	181	187	-	23	16,783			
Sales / Repayments	(2,005)	-	(7,718)	(1,651)	(174)	(217)	-	(5)	(11,770)			
Gains and losses recognised in profit or loss	(922)	59	-	-	19	21	-	-	(823)			
Gains and losses recognised in equity	(164)	-	2,750	15	2,092	9	-	-	4,702			
Transfers in / (out) of level 3	(604)	-	-	(151)	-	(86)	-	-	(841)			
<b>Closing balance</b>	<b>27,583</b>	<b>5,306</b>	<b>32,020</b>	<b>4,054</b>	<b>2,855</b>	<b>1,467</b>	<b>-</b>	<b>210</b>	<b>73,495</b>			

Notes to the financial statements

General Government

Financial Assets												
	Receivables 2014	International Monetary Fund quota 2014	Collective investment vehicles 2014	Other interest bearing securities 2014	Other 2014	Investments - Shares 2014	Investment in public corporations 2014	Equity accounted investments 2014	Total 2014			
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>Financial assets at fair value</b>												
Opening balance	23,984	5,247	28,954	3,994	324	1,186	24,879	192	88,760			
Purchases / Payments	6,288	-	8,034	1,847	11	187	3,193	23	19,583			
Sales / Repayments	(1,856)	-	(7,718)	(1,651)	(83)	(217)	(13)	(5)	(11,543)			
Gains and losses recognised in profit or loss	(921)	59	-	-	(2)	21	-	-	(843)			
Gains and losses recognised in equity	(164)	-	2,750	15	2,127	28	7,687	-	12,443			
Transfers in / (out) of level 3	(604)	-	-	(151)	-	(86)	-	-	(841)			
<b>Closing balance</b>	<b>26,727</b>	<b>5,306</b>	<b>32,020</b>	<b>4,054</b>	<b>2,377</b>	<b>1,119</b>	<b>35,746</b>	<b>210</b>	<b>107,559</b>			

Notes to the financial statements

**Australian Government**

	Non-Financial Assets				
	Land	Buildings	Plant, equipment and infrastructure	Heritage and cultural assets	Total
	2014	2014	2014	2014	2014
	\$m	\$m	\$m	\$m	\$m
<b>Financial assets at fair value</b>					
Opening balance	1,014	21,357	19,938	2,476	44,785
Purchases / Payments	1	2,720	4,266	28	7,015
Sales / Repayments	(1)	(23)	(54)	-	(78)
Gains and losses recognised in profit or loss	(2)	(1,400)	(1,658)	(21)	(3,081)
Gains and losses recognised in equity	(12)	237	305	179	709
Transfers in / (out) of level 3	4	25	276	2	307
<b>Closing balance</b>	<b>1,004</b>	<b>22,916</b>	<b>23,073</b>	<b>2,664</b>	<b>49,657</b>

**General Government**

	Non-Financial Assets				
	Land	Buildings	Plant, equipment and infrastructure	Heritage and cultural assets	Total
	2014	2014	2014	2014	2014
	\$m	\$m	\$m	\$m	\$m
<b>Financial assets at fair value</b>					
Opening balance	806	20,230	10,960	2,476	34,472
Purchases / Payments	1	2,576	1,424	28	4,029
Sales / Repayments	(1)	(16)	(48)	-	(65)
Gains and losses recognised in profit or loss	(1)	(1,330)	(1,080)	(21)	(2,432)
Gains and losses recognised in equity	(12)	209	326	179	702
Transfers in / (out) of level 3	(1)	8	336	2	345
<b>Closing balance</b>	<b>792</b>	<b>21,677</b>	<b>11,918</b>	<b>2,664</b>	<b>37,051</b>

Notes to the financial statements

**Australian Government**

	Financial liabilities			Total
	Loans	Other debt	Payables	
	2014	2014	2014	
	\$m	\$m	\$m	\$m
<b>Financial liabilities at fair value</b>				
Opening balance	380	7	32	419
Purchases / Payments	-	-	749	749
Sales / Repayments	(146)	8	(344)	(482)
Gains and losses recognised in profit or loss	(2)	(3)	(144)	(149)
Gains and losses recognised in equity	(8)	-	-	(8)
Transfers in / (out) of level 3	-	-	1,390	1,390
<b>Closing balance</b>	<b>224</b>	<b>12</b>	<b>1,683</b>	<b>1,919</b>

**General Government**

	Financial liabilities			Total
	Loans	Other debt	Payables	
	2014	2014	2014	
	\$m	\$m	\$m	\$m
<b>Financial liabilities at fair value</b>				
Opening balance	-	-	-	-
Purchases / Payments	-	-	749	749
Sales / Repayments	-	8	(344)	(336)
Gains and losses recognised in profit or loss	-	-	(136)	(136)
Gains and losses recognised in equity	-	-	-	-
Transfers in / (out) of level 3	-	-	1,390	1,390
<b>Closing balance</b>	<b>-</b>	<b>8</b>	<b>1,659</b>	<b>1,667</b>

**Note 18: Advances paid and receivables**

	General Government		Australian Government	
	2014 \$m	2013 \$m	2014 \$m	2013 \$m
<b>Advances paid</b>				
Loans to State and Territory governments	2,502	2,486	2,502	2,486
Higher Education Loan Programme	25,147	21,593	25,147	21,593
Student Financial Supplement Scheme	604	677	604	677
Other	6,015	4,641	6,810	5,349
less Provision for doubtful debts	(228)	(24)	(229)	(30)
<b>Total advances paid</b>	<b>34,040</b>	<b>29,373</b>	<b>34,834</b>	<b>30,075</b>
<b>Other receivables</b>				
Goods and services receivable	817	781	1,827	1,807
Recoveries of benefit payments	3,635	3,261	3,635	3,261
Taxes receivable	37,972	35,533	37,967	35,521
Other financial assets	55	189	300	493
Other	6,890	8,005	5,823	7,662
less Provision for doubtful debts - Goods and services and other	(1,958)	(1,772)	(1,978)	(1,788)
less Provision for doubtful debts - Personal benefits receivable	(675)	(667)	(675)	(667)
less Provision for doubtful debts - Taxes receivable	(14,685)	(12,269)	(14,685)	(12,269)
less Provision for credit amendments	(2,538)	(2,773)	(2,538)	(2,773)
<b>Total other receivables</b>	<b>29,513</b>	<b>30,288</b>	<b>29,676</b>	<b>31,247</b>
<b>Accrued revenue</b>				
Accrued taxation revenue	12,775	10,942	12,775	10,942
Other accrued revenue	341	396	482	545
<b>Total accrued revenue</b>	<b>13,116</b>	<b>11,338</b>	<b>13,257</b>	<b>11,487</b>
<b>Other receivables and accrued revenue</b>	<b>42,629</b>	<b>41,626</b>	<b>42,933</b>	<b>42,734</b>
<b>Total advances paid and receivables</b>	<b>76,669</b>	<b>70,999</b>	<b>77,767</b>	<b>72,809</b>
<b>Advances paid and receivables maturity schedule</b>				
Not later than one year	36,722	36,821	36,965	38,066
Later than one year and not later than two years	29,272	26,025	29,371	26,096
Later than two years and not later than five years	1,464	1,144	2,007	1,620
Later than five years	9,211	7,009	9,424	7,027
<b>Total advances paid and receivables by maturity</b>	<b>76,669</b>	<b>70,999</b>	<b>77,767</b>	<b>72,809</b>

Notes to the financial statements

**Reconciliation of the allowance for doubtful debts<sup>(a)</sup>**

**Movements in relation to 2014**

Australian Government	Advances and loans \$m	Goods and Services \$m	Other \$m	Total \$m
Opening doubtful debts balance	(30)	(104)	(1,682)	(1,816)
less Amounts written off	(5)	(52)	(2)	(59)
less Amounts recovered and reversed	-	(11)	(24)	(35)
plus Increase/decrease recognised in net surplus	(5)	(80)	(118)	(203)
plus Other movement	(199)	(46)	(37)	(282)
<b>Total</b>	<b>(229)</b>	<b>(167)</b>	<b>(1,811)</b>	<b>(2,207)</b>

General Government	Advances and loans \$m	Goods and Services \$m	Other \$m	Total \$m
Opening doubtful debts balance	(24)	(88)	(1,682)	(1,794)
less Amounts written off	(5)	(50)	(2)	(57)
less Amounts recovered and reversed	-	(9)	(24)	(33)
plus Increase/decrease recognised in net surplus	(4)	(73)	(118)	(195)
plus Other movement	(205)	(46)	(36)	(287)
<b>Total</b>	<b>(228)</b>	<b>(148)</b>	<b>(1,810)</b>	<b>(2,186)</b>

**Movements in relation to 2013**

Australian Government	Advances and loans \$m	Goods and Services \$m	Other \$m	Total \$m
Opening doubtful debts balance	(31)	(187)	(1,727)	(1,945)
less Amounts written off	(2)	(47)	(28)	(77)
less Amounts recovered and reversed	-	(7)	-	(7)
plus Increase/decrease recognised in net surplus	6	(26)	1	(19)
plus Other movement	(7)	55	16	64
<b>Total</b>	<b>(30)</b>	<b>(104)</b>	<b>(1,682)</b>	<b>(1,816)</b>

General Government	Advances and loans \$m	Goods and Services \$m	Other \$m	Total \$m
Opening doubtful debts balance	(25)	(171)	(1,727)	(1,923)
less Amounts written off	(2)	(44)	(26)	(72)
less Amounts recovered and reversed	-	(6)	-	(6)
plus Increase/decrease recognised in net surplus	6	(22)	1	(15)
plus Other movement	(7)	55	18	66
<b>Total</b>	<b>(24)</b>	<b>(88)</b>	<b>(1,682)</b>	<b>(1,794)</b>

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



**Note 19: Investments, loans and placements**

	General Government		Australian Government	
	2014 \$m	2013 \$m	2014 \$m	2013 \$m
Gold	-	-	3,584	3,299
Deposits	30,866	23,342	6,512	5,829
Government securities	233	233	125,620	86,968
Residential mortgage-backed securities(a)	6,060	9,113	6,060	9,113
Debentures	-	-	859	782
International Monetary Fund quota	5,306	5,247	9,995	9,992
Defined benefit superannuation plan assets	-	-	81	-
Collective investment vehicles	32,293	29,498	32,293	29,498
Other interest bearing securities	31,550	31,373	31,550	31,373
Other	11,303	12,291	13,222	14,446
<b>Total investments, loans and placements</b>	<b>117,611</b>	<b>111,097</b>	<b>229,776</b>	<b>191,300</b>

(a) Investments in residential mortgage-backed securities are to support competition in the residential mortgage market and to meet government policy objectives. Residential mortgage-backed securities held for investment purposes are classified elsewhere.

Notes to the financial statements

**Note 20: Equity investments**

	General Government		Australian Government	
	2014	2013	2014	2013
	\$m	\$m	\$m	\$m
Investments - Shares	39,296	33,661	39,933	34,401
Investment in public corporations	35,745	24,879	-	-
Equity accounted investments	535	493	544	504
<b>Total equity investments</b>	<b>75,576</b>	<b>59,033</b>	<b>40,477</b>	<b>34,905</b>

**Note 21: Land and buildings, plant, equipment and infrastructure, heritage and cultural assets and investment properties**

	General Government		Australian Government	
	2014	2013	2014	2013
	\$m	\$m	\$m	\$m
<b>LAND AND BUILDINGS</b>				
<b>Land</b>				
Land - at cost	89	90	333	338
Land - at valuation(a)	9,242	8,827	9,513	9,102
<b>Total land</b>	<b>9,331</b>	<b>8,917</b>	<b>9,846</b>	<b>9,440</b>
<b>Buildings</b>				
Buildings - at cost	3,540	3,040	5,206	4,442
Accumulated depreciation	(26)	(28)	(737)	(677)
	3,514	3,012	4,469	3,765
Buildings - at valuation(a)	24,311	23,562	26,352	25,379
Accumulated depreciation	(3,102)	(3,074)	(3,440)	(3,402)
	21,209	20,488	22,912	21,977
<b>Total buildings</b>	<b>24,723</b>	<b>23,500</b>	<b>27,381</b>	<b>25,742</b>
<b>Total land and buildings</b>	<b>34,054</b>	<b>32,417</b>	<b>37,227</b>	<b>35,182</b>
<b>PLANT, EQUIPMENT AND INFRASTRUCTURE</b>				
<b>Specialist military equipment</b>				
Specialist military equipment - at cost	77,387	75,820	77,387	75,820
Accumulated depreciation	(36,144)	(35,532)	(36,144)	(35,532)
<b>Total specialist military equipment</b>	<b>41,243</b>	<b>40,288</b>	<b>41,243</b>	<b>40,288</b>
<b>Other plant, equipment and infrastructure</b>				
Other plant, equipment and infrastructure - at cost	1,569	1,425	11,016	7,827
Accumulated depreciation	(35)	(79)	(1,879)	(1,613)
	1,534	1,346	9,137	6,214
Other plant, equipment and infrastructure - at valuation(a)	14,696	14,338	19,104	18,091
Accumulated depreciation	(3,179)	(3,074)	(3,301)	(3,218)
	11,517	11,264	15,803	14,873
<b>Total other plant, equipment and infrastructure</b>	<b>13,051</b>	<b>12,610</b>	<b>24,940</b>	<b>21,087</b>
<b>Total plant, equipment and infrastructure</b>	<b>54,294</b>	<b>52,898</b>	<b>66,183</b>	<b>61,375</b>

(a) Refer Note 1.15 for details regarding the valuation methodologies adopted. The reporting periods in which these assets were revalued are detailed in Note 21, Table D.

**Note 21: Land and buildings, plant, equipment and infrastructure, heritage and cultural assets and investment properties (continued)**

	General Government		Australian Government	
	2014	2013	2014	2013
	\$m	\$m	\$m	\$m
<b>HERITAGE AND CULTURAL ASSETS</b>				
<b>Heritage and cultural assets</b>				
Heritage and cultural assets - at cost	5	6	5	6
Accumulated depreciation	-	(1)	-	(1)
	5	5	5	5
Heritage and cultural assets - at valuation(a)	10,876	10,587	10,876	10,587
Accumulated depreciation	(56)	(45)	(56)	(45)
	10,820	10,542	10,820	10,542
<b>Total heritage and cultural assets</b>	<b>10,825</b>	<b>10,547</b>	<b>10,825</b>	<b>10,547</b>
<b>INVESTMENT PROPERTY</b>				
<b>Investment property</b>				
Investment property - at valuation(a)	183	195	375	368
Accumulated depreciation	-	-	-	-
<b>Total investment property</b>	<b>183</b>	<b>195</b>	<b>375</b>	<b>368</b>
<b>Total land and buildings, plant, equipment and infrastructure, heritage and cultural assets and investment property</b>	<b>99,356</b>	<b>96,057</b>	<b>114,610</b>	<b>107,472</b>

(a) Refer Note 1.15 for details regarding the valuation methodologies adopted. The reporting periods in which these assets were revalued are detailed in Note 21, Table D.

**Note 21: Land and buildings, plant, equipment and infrastructure, heritage and cultural assets and investment properties (continued)**A: Reconciliation of movement in land and buildings, plant, equipment and infrastructure, heritage and cultural assets and investment properties<sup>(a)</sup>

Item	Land		Buildings		Total land and buildings		Specialist military equipment		Other plant, equipment and infrastructure		Total plant, equipment and infrastructure		Heritage and cultural assets		Investment property		Total		
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	
<b>As at 1 July 2013</b>																			
Gross book value	9,440	29,821	39,261	75,820	25,918	101,738	10,593	375	151,967										
Accumulated depreciation	-	(4,079)	(4,079)	(35,532)	(4,831)	(40,363)	(46)	(7)	(44,495)										
<b>Net book value</b>	<b>9,440</b>	<b>25,742</b>	<b>35,182</b>	<b>40,288</b>	<b>21,087</b>	<b>61,375</b>	<b>10,547</b>	<b>368</b>	<b>107,472</b>										
<b>Additions:</b>																			
Purchase of new or secondhand assets																			
Acquisition by finance lease	28	2,620	2,648	4,309	3,656	7,965	77	2	10,692										
Revaluations: write-ups	480	232	712	-	186	186	239	16	1,153										
Reclassification	(44)	(54)	(98)	(74)	113	39	6	5	(48)										
Depreciation/amortisation expense	-	(1,584)	(1,584)	(2,539)	(2,141)	(4,680)	(51)	-	(6,315)										
Recoverable amount write-downs	(2)	(123)	(125)	(469)	(63)	(532)	(6)	-	(663)										
Reversal of write-downs	-	-	-	16	2	18	-	-	18										
Other movements	(23)	46	23	(263)	27	(236)	15	-	(198)										
Disposals	(35)	(11)	(46)	(25)	(74)	(99)	(2)	(16)	(163)										
<b>As at 30 June 2014</b>	<b>9,846</b>	<b>27,381</b>	<b>37,227</b>	<b>41,243</b>	<b>24,940</b>	<b>66,183</b>	<b>10,825</b>	<b>375</b>	<b>114,610</b>										
Gross book value	9,846	31,558	41,404	77,387	30,120	107,507	10,881	375	160,167										
Accumulated depreciation	-	(4,177)	(4,177)	(36,144)	(5,180)	(41,324)	(56)	-	(45,557)										
<b>Net book value</b>	<b>9,846</b>	<b>27,381</b>	<b>37,227</b>	<b>41,243</b>	<b>24,940</b>	<b>66,183</b>	<b>10,825</b>	<b>375</b>	<b>114,610</b>										

(a) This table is inclusive of amounts detailed in Tables B, C and D below.

**Note 21: Land and buildings, plant, equipment and infrastructure, heritage and cultural assets and investment properties (continued)**

A: Reconciliation of movement in land and buildings, plant, equipment and infrastructure, heritage and cultural assets and investment properties<sup>(a)</sup> (continued)

Item	Land		Buildings		Total land and buildings		Specialist military equipment		Other plant, equipment and infrastructure		Total plant, equipment and infrastructure		Heritage and cultural assets		Investment property		Total	
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>As at 1 July 2012</b>																		
Gross book value	9,155	29,574	38,729	74,915	24,362	99,277	10,501	377	148,884									
Accumulated depreciation	-	(4,129)	(4,129)	(34,587)	(5,703)	(40,290)	(68)	-	(44,487)									
<b>Net book value</b>	<b>9,155</b>	<b>25,445</b>	<b>34,600</b>	<b>40,328</b>	<b>18,659</b>	<b>58,987</b>	<b>10,433</b>	<b>377</b>	<b>104,397</b>									
Additions:																		
Purchase of new or secondhand assets																		
Acquisition by finance lease	36	1,887	1,923	3,032	3,420	6,452	71	15	8,461									
Entity acquisitions	-	283	283	-	1,105	1,105	-	-	1,388									
Revaluations: write-ups	48	72	120	-	113	113	-	-	233									
Reclassification	295	45	340	-	226	226	72	12	650									
Depreciation/amortisation expense	(69)	(397)	(466)	(99)	250	151	-	5	(310)									
Recoverable amount write-downs	-	(1,492)	(1,492)	(2,689)	(1,964)	(4,653)	(50)	-	(6,195)									
Reversal of write-downs	(17)	(151)	(168)	(315)	(537)	(852)	(4)	(3)	(1,027)									
Other movements	-	-	-	7	(2)	5	-	-	5									
Disposals	3	50	53	25	(123)	(98)	25	8	(12)									
	(11)	-	(11)	(1)	(60)	(61)	(1)	(46)	(118)									
<b>As at 30 June 2013</b>	<b>9,440</b>	<b>25,742</b>	<b>35,182</b>	<b>40,288</b>	<b>21,087</b>	<b>61,375</b>	<b>10,547</b>	<b>368</b>	<b>107,472</b>									
Gross book value	9,440	29,821	39,261	75,820	25,918	101,738	10,593	375	151,967									
Accumulated depreciation	-	(4,079)	(4,079)	(35,532)	(4,831)	(40,363)	(46)	(7)	(44,495)									
<b>Net book value</b>	<b>9,440</b>	<b>25,742</b>	<b>35,182</b>	<b>40,288</b>	<b>21,087</b>	<b>61,375</b>	<b>10,547</b>	<b>368</b>	<b>107,472</b>									

(a) This table is inclusive of amounts detailed in Tables B, C and D below.

**Note 21: Land and buildings, plant, equipment and infrastructure, heritage and cultural assets and investment properties (continued)**

A: Reconciliation of movement in land and buildings, plant, equipment and infrastructure, heritage and cultural assets and investment properties<sup>(a)</sup> (continued)

Item	General Government				Heritage and cultural assets		Investment property	Total
	Land	Buildings	Total land and buildings	Specialist military equipment	Other plant, equipment and infrastructure	Total plant, equipment and infrastructure		
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>As at 1 July 2013</b>								
Gross book value	8,917	26,602	35,519	75,820	15,763	91,583	10,593	195
Accumulated depreciation	-	(3,102)	(3,102)	(35,532)	(3,153)	(38,685)	(46)	-
<b>Net book value</b>	<b>8,917</b>	<b>23,500</b>	<b>32,417</b>	<b>40,288</b>	<b>12,610</b>	<b>52,898</b>	<b>10,547</b>	<b>195</b>
<b>As at 30 June 2014</b>								
Gross book value	9,331	24,723	34,054	41,243	13,051	54,294	10,825	183
Accumulated depreciation	-	(3,128)	(3,128)	(36,144)	(3,214)	(39,358)	(56)	-
<b>Net book value</b>	<b>9,331</b>	<b>24,723</b>	<b>34,054</b>	<b>41,243</b>	<b>13,051</b>	<b>54,294</b>	<b>10,825</b>	<b>183</b>
Additions:								
Purchase of new or secondhand assets	21	2,247	2,268	4,309	1,545	5,854	77	2
Acquisition by finance lease	2	513	515	-	71	71	-	-
Revaluations: write-ups	479	122	601	-	214	214	239	2
Reclassification	(34)	(72)	(106)	(74)	129	55	6	-
Depreciation/amortisation expense	-	(1,474)	(1,474)	(2,540)	(1,433)	(3,973)	(51)	-
Recoverable amount write-downs	-	(116)	(116)	(469)	(40)	(509)	(6)	-
Reversal of write-downs	-	-	-	16	-	16	-	-
Other movements	(23)	42	19	(262)	8	(254)	15	-
Disposals	(31)	(39)	(70)	(25)	(53)	(78)	(2)	(16)
<b>As at 30 June 2014</b>	<b>9,331</b>	<b>24,723</b>	<b>34,054</b>	<b>41,243</b>	<b>13,051</b>	<b>54,294</b>	<b>10,825</b>	<b>183</b>
Gross book value	9,331	27,851	37,182	77,387	16,265	93,652	10,881	183
Accumulated depreciation	-	(3,128)	(3,128)	(36,144)	(3,214)	(39,358)	(56)	-
<b>Net book value</b>	<b>9,331</b>	<b>24,723</b>	<b>34,054</b>	<b>41,243</b>	<b>13,051</b>	<b>54,294</b>	<b>10,825</b>	<b>183</b>

(a) This table is inclusive of amounts detailed in Tables B, C and D below.

**Note 21: Land and buildings, plant, equipment and infrastructure, heritage and cultural assets and investment properties (continued)**

A: Reconciliation of movement in land and buildings, plant, equipment and infrastructure, heritage and cultural assets and investment properties<sup>(a)</sup> (continued)

Item	General Government				Heritage and cultural assets		Investment property	Total property
	Land	Buildings	Total land and buildings	Specialist military equipment	Other plant, equipment and infrastructure	Total plant, equipment and infrastructure		
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>As at 1 July 2012</b>								
Gross book value	8,649	26,551	35,200	74,915	15,529	90,444	10,501	181
Accumulated depreciation	-	(3,219)	(3,219)	(34,587)	(2,995)	(37,582)	(68)	-
<b>Net book value</b>	<b>8,649</b>	<b>23,332</b>	<b>31,981</b>	<b>40,328</b>	<b>12,534</b>	<b>52,862</b>	<b>10,433</b>	<b>181</b>
<b>As at 30 June 2013</b>								
Gross book value	8,917	23,500	32,417	40,288	12,610	52,898	10,547	195
Accumulated depreciation	-	(3,102)	(3,102)	(35,532)	(3,153)	(38,685)	(46)	-
<b>Net book value</b>	<b>8,917</b>	<b>23,500</b>	<b>32,417</b>	<b>40,288</b>	<b>12,610</b>	<b>52,898</b>	<b>10,547</b>	<b>195</b>
Additions:								
Purchase of new or secondhand assets	36	1,611	1,647	3,032	1,411	4,443	71	15
Acquisition by finance lease	-	283	283	-	31	31	-	-
Revaluations: write-ups	299	115	414	-	79	79	72	-
Reclassification	(56)	(354)	(410)	(99)	263	164	-	-
Depreciation/amortisation expense	-	(1,407)	(1,407)	(2,689)	(1,487)	(4,176)	(50)	-
Recoverable amount write-downs	(1)	(113)	(114)	(315)	(40)	(355)	(4)	(3)
Reversal of write-downs	-	-	-	7	(2)	5	-	5
Other movements	1	47	48	25	(130)	(105)	25	8
Disposals	(11)	(14)	(25)	(1)	(49)	(50)	-	(6)
<b>As at 30 June 2013</b>	<b>8,917</b>	<b>23,500</b>	<b>32,417</b>	<b>40,288</b>	<b>12,610</b>	<b>52,898</b>	<b>10,547</b>	<b>195</b>
Gross book value	8,917	26,602	35,519	75,820	15,763	91,583	10,593	195
Accumulated depreciation	-	(3,102)	(3,102)	(35,532)	(3,153)	(38,685)	(46)	-
<b>Net book value</b>	<b>8,917</b>	<b>23,500</b>	<b>32,417</b>	<b>40,288</b>	<b>12,610</b>	<b>52,898</b>	<b>10,547</b>	<b>195</b>

(a) This table is inclusive of amounts detailed in Tables B, C and D below.

**Note 21: Land and buildings, plant, equipment and infrastructure, heritage and cultural assets and investment properties (continued)**

**B: Assets held under finance lease**

Item	Australian Government									
	Land \$m	Buildings \$m	Total land and buildings \$m	Specialist military equipment \$m	Other plant, equipment and infrastructure \$m	Total plant, equipment and infrastructure \$m	Heritage and cultural assets \$m	Investment property \$m	Total \$m	
<b>As at 30 June 2014</b>										
Gross value	88	1,515	1,603	-	249	249	-	-	-	1,852
Accumulated depreciation/amortisation	-	(104)	(104)	-	(12)	(12)	-	-	-	(116)
<b>Net book value</b>	<b>88</b>	<b>1,411</b>	<b>1,499</b>	<b>-</b>	<b>237</b>	<b>237</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,736</b>
<b>As at 30 June 2013</b>										
Gross value	89	1,116	1,205	-	1,514	1,514	-	-	-	2,719
Accumulated depreciation/amortisation	-	(87)	(87)	-	(52)	(52)	-	-	-	(139)
<b>Net book value</b>	<b>89</b>	<b>1,029</b>	<b>1,118</b>	<b>-</b>	<b>1,462</b>	<b>1,462</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,580</b>

Item	General Government									
	Land \$m	Buildings \$m	Total land and buildings \$m	Specialist military equipment \$m	Other plant, equipment and infrastructure \$m	Total plant, equipment and infrastructure \$m	Heritage and cultural assets \$m	Investment property \$m	Total \$m	
<b>As at 30 June 2014</b>										
Gross value	88	1,515	1,603	-	230	230	-	-	-	1,833
Accumulated depreciation/amortisation	-	(104)	(104)	-	(12)	(12)	-	-	-	(116)
<b>Net book value</b>	<b>88</b>	<b>1,411</b>	<b>1,499</b>	<b>-</b>	<b>218</b>	<b>218</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,717</b>
<b>As at 30 June 2013</b>										
Gross value	89	1,089	1,178	-	201	201	-	-	-	1,379
Accumulated depreciation/amortisation	-	(84)	(84)	-	(20)	(20)	-	-	-	(104)
<b>Net book value</b>	<b>89</b>	<b>1,005</b>	<b>1,094</b>	<b>-</b>	<b>181</b>	<b>181</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,275</b>



**Note 21: Land and buildings, plant, equipment and infrastructure, heritage and cultural assets and investment properties  
(continued)**

C: Assets under construction		Australian Government									
Item	Land \$m	Buildings \$m	Total land and buildings \$m	Specialist military equipment \$m	Other plant, equipment and infrastructure \$m	Total plant, equipment and infrastructure \$m	Heritage and cultural assets \$m	Investment property \$m	Total \$m		
<b>As at 30 June 2014</b>											
Gross value	-	3,135	3,135	11,904	2,045	13,949	6	-	17,090		
Accumulated depreciation/amortisation	-	-	-	-	-	-	-	-	-		
<b>Net book value</b>	<b>-</b>	<b>3,135</b>	<b>3,135</b>	<b>11,904</b>	<b>2,045</b>	<b>13,949</b>	<b>6</b>	<b>-</b>	<b>17,090</b>		
<b>As at 30 June 2013</b>											
Gross value	-	2,229	2,229	10,758	3,177	13,935	5	-	16,169		
Accumulated depreciation/amortisation	-	-	-	-	-	-	-	-	-		
<b>Net book value</b>	<b>-</b>	<b>2,229</b>	<b>2,229</b>	<b>10,758</b>	<b>3,177</b>	<b>13,935</b>	<b>5</b>	<b>-</b>	<b>16,169</b>		
General Government											
Item	Land \$m	Buildings \$m	Total land and buildings \$m	Specialist military equipment \$m	Other plant, equipment and infrastructure \$m	Total plant, equipment and infrastructure \$m	Heritage and cultural assets \$m	Investment property \$m	Total \$m		
<b>As at 30 June 2014</b>											
Gross value	-	2,346	2,346	11,904	1,289	13,193	6	-	15,545		
Accumulated depreciation/amortisation	-	-	-	-	-	-	-	-	-		
<b>Net book value</b>	<b>-</b>	<b>2,346</b>	<b>2,346</b>	<b>11,904</b>	<b>1,289</b>	<b>13,193</b>	<b>6</b>	<b>-</b>	<b>15,545</b>		
<b>As at 30 June 2013</b>											
Gross value	-	2,191	2,191	10,758	1,205	11,963	5	-	14,159		
Accumulated depreciation/amortisation	-	-	-	-	-	-	-	-	-		
<b>Net book value</b>	<b>-</b>	<b>2,191</b>	<b>2,191</b>	<b>10,758</b>	<b>1,205</b>	<b>11,963</b>	<b>5</b>	<b>-</b>	<b>14,159</b>		

**Note 21: Land and buildings, plant, equipment and infrastructure, heritage and cultural assets and investment properties (continued)**

**D: Assets at valuation — Reporting period in which asset revaluation took place**

Item	Australian Government						Total		
	Land	Buildings	Total land and buildings	Specialist military equipment	Other plant, equipment and infrastructure	Total plant, equipment and infrastructure		Heritage and cultural assets	Investment property
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>Net book value at fair value</b>									
Assets at valuation - 2011-12	19	403	422	-	584	584	1,024	-	<b>2,031</b>
Assets at valuation - 2012-13	2,191	4,230	6,421	-	6,410	6,410	517	54	<b>13,402</b>
Assets at valuation - 2013-14	7,303	18,279	25,581	-	8,809	8,809	9,279	321	<b>43,990</b>
<b>Net book value at fair value</b>	<b>9,513</b>	<b>22,912</b>	<b>32,424</b>	<b>-</b>	<b>15,803</b>	<b>15,803</b>	<b>10,820</b>	<b>375</b>	<b>59,422</b>

Item	General Government						Total		
	Land	Buildings	Total land and buildings	Specialist military equipment	Other plant, equipment and infrastructure	Total plant, equipment and infrastructure		Heritage and cultural assets	Investment property
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>Net book value at fair value</b>									
Assets at valuation - 2011-12	-	378	378	-	584	584	1,024	-	<b>1,987</b>
Assets at valuation - 2012-13	2,018	3,824	5,842	-	2,681	2,681	517	54	<b>9,094</b>
Assets at valuation - 2013-14	7,224	17,007	24,231	-	8,252	8,252	9,279	129	<b>41,890</b>
<b>Net book value at fair value</b>	<b>9,242</b>	<b>21,209</b>	<b>30,451</b>	<b>-</b>	<b>11,517</b>	<b>11,517</b>	<b>10,820</b>	<b>183</b>	<b>52,971</b>

**Note 22: Intangibles**

	General Government		Australian Government	
	2014	2013	2014	2013
	\$m	\$m	\$m	\$m
<b>Computer software</b>				
Computer software - at cost	7,847	7,373	10,510	9,681
Accumulated amortisation	(4,218)	(3,794)	(5,670)	(5,024)
<b>Total computer software</b>	<b>3,629</b>	<b>3,579</b>	<b>4,840</b>	<b>4,657</b>
<b>Other intangibles</b>				
Other intangibles - at cost	3,384	2,216	4,697	3,455
Accumulated amortisation	(876)	(159)	(1,216)	(290)
<b>Total other intangibles</b>	<b>2,508</b>	<b>2,057</b>	<b>3,481</b>	<b>3,165</b>
<b>Total intangibles</b>	<b>6,137</b>	<b>5,636</b>	<b>8,321</b>	<b>7,822</b>

**A: Reconciliation of movement in intangibles**

Australian Government	Computer software	Other intangibles	Total
Item	\$m	\$m	\$m
<b>As at 1 July 2013</b>			
Gross book value	9,681	3,455	13,136
Accumulated depreciation	(5,024)	(290)	(5,314)
<b>Net book value</b>	<b>4,657</b>	<b>3,165</b>	<b>7,822</b>
Additions:			
Purchase of new or secondhand assets	1,210	243	1,453
Internally generated	127	1	128
Revaluations: write-ups/(write-downs)	(5)	(14)	(19)
Reclassification	48	(2)	46
Amortisation expense	(1,116)	(124)	(1,240)
Recoverable amount write-downs	(69)	(140)	(209)
Reversal of write-downs	-	84	84
Other movements	(4)	270	266
Disposals	(8)	(2)	(10)
<b>As at 30 June 2014</b>	<b>4,840</b>	<b>3,481</b>	<b>8,321</b>
Gross book value	10,510	4,697	15,207
Accumulated depreciation	(5,670)	(1,216)	(6,886)
<b>Net book value</b>	<b>4,840</b>	<b>3,481</b>	<b>8,321</b>

Notes to the financial statements

**Note 22: Intangibles (continued)**

**A: Reconciliation of movement in intangibles (continued)**

Australian Government	Computer software	Other intangibles	Total
Item	\$m	\$m	\$m
<b>As at 1 July 2012</b>			
Gross book value	8,345	2,704	11,049
Accumulated depreciation	(4,106)	(207)	(4,313)
<b>Net book value</b>	<b>4,239</b>	<b>2,497</b>	<b>6,736</b>
Additions:			
Purchase of new or secondhand assets	1,334	358	1,692
Internally generated	6	1	7
Entity acquisitions	38	680	718
Revaluations: write-ups/(write-downs)	(1)	-	(1)
Reclassification	73	(1)	72
Amortisation expense	(985)	(77)	(1,062)
Recoverable amount write-downs	(42)	(355)	(397)
Other movements	(1)	62	61
Disposals	(4)	-	(4)
<b>As at 30 June 2013</b>	<b>4,657</b>	<b>3,165</b>	<b>7,822</b>
Gross book value	9,681	3,455	13,136
Accumulated depreciation	(5,024)	(290)	(5,314)
<b>Net book value</b>	<b>4,657</b>	<b>3,165</b>	<b>7,822</b>

General Government	Computer software	Other intangibles	Total
Item	\$m	\$m	\$m
<b>As at 1 July 2013</b>			
Gross book value	7,373	2,216	9,589
Accumulated depreciation	(3,794)	(159)	(3,953)
<b>Net book value</b>	<b>3,579</b>	<b>2,057</b>	<b>5,636</b>
Additions:			
Purchase of new or secondhand assets	762	213	975
Internally generated	127	1	128
Revaluations: write-ups/(write-downs)	(5)	1	(4)
Reclassification	46	-	46
Amortisation expense	(850)	(56)	(906)
Recoverable amount write-downs	(51)	(38)	(89)
Reversal of write-downs	-	84	84
Other movements	26	248	274
Disposals	(5)	(2)	(7)
<b>As at 30 June 2014</b>	<b>3,629</b>	<b>2,508</b>	<b>6,137</b>
Gross book value	7,847	3,384	11,231
Accumulated depreciation	(4,218)	(876)	(5,094)
<b>Net book value</b>	<b>3,629</b>	<b>2,508</b>	<b>6,137</b>

**Note 22: Intangibles (continued)****A: Reconciliation of movement in intangibles (continued)**

General Government	Computer software	Other intangibles	Total
Item	\$m	\$m	\$m
<b>As at 1 July 2012</b>			
Gross book value	6,500	2,216	8,716
Accumulated depreciation	(3,079)	(136)	(3,215)
<b>Net book value</b>	<b>3,421</b>	<b>2,080</b>	<b>5,501</b>
Additions:			
Purchase of new or secondhand assets	886	282	1,168
Internally generated	6	1	7
Revaluations: write-ups/(write-downs)	(1)	-	(1)
Reclassification	73	(1)	72
Amortisation expense	(773)	(22)	(795)
Recoverable amount write-downs	(28)	(344)	(372)
Other movements	(2)	61	59
Disposals	(3)	-	(3)
<b>As at 30 June 2013</b>	<b>3,579</b>	<b>2,057</b>	<b>5,636</b>
Gross book value	7,373	2,216	9,589
Accumulated depreciation	(3,794)	(159)	(3,953)
<b>Net book value</b>	<b>3,579</b>	<b>2,057</b>	<b>5,636</b>

**Note 23: Inventories**

	General Government		Australian Government	
	2014	2013	2014	2013
	\$m	\$m	\$m	\$m
<b>Inventories held for sale</b>				
Finished goods(a)	669	689	734	750
Raw materials and stores	63	69	77	82
Work in progress	535	424	539	428
<b>Total inventories held for sale</b>	<b>1,267</b>	<b>1,182</b>	<b>1,350</b>	<b>1,260</b>
<b>Inventories not held for sale</b>				
Consumable stores and inventories held for distribution	6,986	6,744	7,021	6,778
<b>Total inventories not held for sale</b>	<b>6,986</b>	<b>6,744</b>	<b>7,021</b>	<b>6,778</b>
<b>Total inventories</b>	<b>8,253</b>	<b>7,926</b>	<b>8,371</b>	<b>8,038</b>

(a) Finished goods includes \$231 million valued at net realisable value (2013: \$353 million), the remainder is valued at cost.

**Note 24: Other non-financial assets**

	General Government		Australian Government	
	2014	2013	2014	2013
	\$m	\$m	\$m	\$m
Total biological assets	36	33	36	33
Total assets held for sale	95	110	143	213
Other non-financial assets:				
Prepayments	2,985	2,463	3,058	2,519
Other	410	292	2,723	1,705
<b>Total other non-financial assets</b>	<b>3,526</b>	<b>2,898</b>	<b>5,960</b>	<b>4,470</b>

Notes to the financial statements

**Note 25: Assets by function<sup>(a)</sup>**

	General Government		Australian Government	
	2014	2013	2014	2013
	\$m	\$m	\$m	\$m
General public services	167,318	159,311	166,730	158,921
Defence	75,996	73,095	76,314	73,413
Public order and safety	2,548	1,969	2,595	2,006
Education	22,761	25,316	22,761	25,291
Health	5,444	5,120	3,596	3,240
Social security and welfare	14,322	7,318	13,106	6,889
Housing and community amenities	8,164	7,967	8,139	7,944
Recreation and culture	13,467	11,697	13,416	11,664
Fuel and energy	877	569	877	569
Agriculture, forestry and fishing	451	354	451	353
Mining, manufacturing and construction	70	70	1,856	1,878
Transport and communication	11,762	11,073	19,877	16,658
Other economic affairs	4,458	16,627	140,530	103,252
Other purposes(b)	63,334	35,273	19,548	18,802
<b>Total assets</b>	<b>390,972</b>	<b>355,759</b>	<b>489,796</b>	<b>430,880</b>

(a) Refer to Note 46 for description of each function.

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

**Note 26: Deposit liabilities**

	General Government		Australian Government	
	2014	2013	2014	2013
	\$m	\$m	\$m	\$m
Exchange settlement funds	-	-	22,379	2,235
Drawing accounts held with the Reserve Bank of Australia	-	-	824	484
State governments	-	-	-	10
Monies held in trust	206	176	206	176
Foreign governments	-	-	872	2,815
Other	5	6	307	404
<b>Total deposit liabilities</b>	<b>211</b>	<b>182</b>	<b>24,588</b>	<b>6,124</b>

**Note 27: Government securities**

	General Government		Australian Government	
	2014 \$m	2013 \$m	2014 \$m	2013 \$m
Treasury bonds	309,202	251,574	309,202	251,569
Treasury notes	4,974	5,483	4,974	5,483
Treasury indexed bonds	32,419	27,093	32,419	27,093
Other	4,687	1,598	21	15
<b>Total government securities</b>	<b>351,282</b>	<b>285,748</b>	<b>346,616</b>	<b>284,160</b>

**Note 28: Loans**

	General Government		Australian Government	
	2014 \$m	2013 \$m	2014 \$m	2013 \$m
Bills of exchange and promissory notes	3,904	3,165	4,477	3,631
Bonds (non-Treasury)	-	-	3,067	3,099
Loans	804	909	920	1,101
<b>Total loans</b>	<b>4,708</b>	<b>4,074</b>	<b>8,464</b>	<b>7,831</b>
<b>Loans maturity schedule</b>				
Not later than one year	104	114	594	1,061
Later than one year and not later than two years	25	88	328	874
Later than two years and not later than five years	430	248	1,729	1,578
Later than five years	4,149	3,624	5,813	4,318
<b>Total loans by maturity</b>	<b>4,708</b>	<b>4,074</b>	<b>8,464</b>	<b>7,831</b>

**Note 29: Other borrowings**

	General Government		Australian Government	
	2014 \$m	2013 \$m	2014 \$m	2013 \$m
Finance lease liabilities as at the reporting date are reconciled to the lease liability as follows:				
Not later than one year	175	177	569	322
Later than one year and not later than five years	651	517	1,836	975
Later than five years	2,301	1,388	10,495	4,647
Minimum lease payments	3,127	2,082	12,900	5,944
less future finance charges	1,598	1,058	7,910	3,583
<b>Total finance lease liabilities</b>	<b>1,529</b>	<b>1,024</b>	<b>4,990</b>	<b>2,361</b>
<b>Finance lease liabilities maturity schedule</b>				
Current	80	95	199	133
Non-current	1,449	929	4,791	2,228
<b>Total finance lease liabilities by maturity</b>	<b>1,529</b>	<b>1,024</b>	<b>4,990</b>	<b>2,361</b>

Notes to the financial statements

**Note 30: Other interest bearing liabilities**

	General Government		Australian Government	
	2014	2013	2014	2013
	\$m	\$m	\$m	\$m
Swap principal payable	469	4,472	647	4,759
Amounts outstanding under repurchase agreements	-	-	5,244	2,379
Special reserve - International Monetary Fund special drawing rights	5,054	4,999	5,054	4,999
Finance lease incentives	144	126	154	129
Other	7	19	1,835	2,682
<b>Total other interest bearing liabilities</b>	<b>5,674</b>	<b>9,616</b>	<b>12,934</b>	<b>14,948</b>

**Note 31: Employee benefits**

	General Government		Australian Government	
	2014	2013	2014	2013
	\$m	\$m	\$m	\$m
<b>Total superannuation liability</b>	<b>221,747</b>	<b>193,313</b>	<b>221,948</b>	<b>193,694</b>
<b>Other employee liabilities</b>				
Leave and other entitlements	7,331	7,396	9,800	9,656
Accrued salaries and wages	772	655	854	740
Workers compensation claims	3,175	3,087	3,314	3,217
Separations and redundancies	284	100	383	179
Military compensation	4,092	3,353	4,092	3,353
Other	276	205	277	205
<b>Total other employee liabilities</b>	<b>15,930</b>	<b>14,796</b>	<b>18,720</b>	<b>17,350</b>
<b>Total employee and superannuation liabilities</b>	<b>237,677</b>	<b>208,109</b>	<b>240,668</b>	<b>211,044</b>

As at 30 June 2014, the number of full time equivalent employees was 304,491 (2013: 314,072). This comprises civilians and military personnel, including reserve forces.



**Note 32: Other provisions and payables**

	General Government		Australian Government	
	2014 \$m	2013 \$m	2014 \$m	2013 \$m
<b>Payables</b>				
<b>Suppliers payable</b>				
Trade creditors	3,562	4,047	4,622	4,986
Operating lease rental payable	264	209	264	209
Other creditors	1,056	2,191	1,260	2,391
<b>Total suppliers payable</b>	<b>4,882</b>	<b>6,447</b>	<b>6,146</b>	<b>7,586</b>
<b>Total personal benefits payable</b>	<b>5,607</b>	<b>5,699</b>	<b>5,607</b>	<b>5,699</b>
<b>Total subsidies payable</b>	<b>4,482</b>	<b>3,580</b>	<b>4,482</b>	<b>3,580</b>
<b>Grants payable</b>				
State and Territory governments	679	807	679	807
Private sector	384	505	384	505
Overseas	1,660	1,390	1,660	1,390
Local governments	2	12	2	12
Other	630	641	630	641
<b>Total grants payable</b>	<b>3,355</b>	<b>3,355</b>	<b>3,355</b>	<b>3,355</b>
<b>Other payables</b>				
Unearned income	1,091	1,243	2,029	2,100
Accrued expenses	961	883	1,947	1,554
Other	1,424	978	1,456	994
<b>Total other payables</b>	<b>3,476</b>	<b>3,104</b>	<b>5,432</b>	<b>4,648</b>
<b>Total payables</b>	<b>21,802</b>	<b>22,185</b>	<b>25,022</b>	<b>24,868</b>
<b>Australian currency on issue</b>	<b>-</b>	<b>-</b>	<b>60,778</b>	<b>56,943</b>
<b>Other provisions</b>				
Grant provisions	10,846	12,855	10,846	12,855
Provision for outstanding benefits and claims	11,720	12,123	12,127	12,530
Provision for tax refunds	2,919	3,391	2,919	3,391
Provision for restoration, decommissioning and makegood	2,017	1,914	2,122	2,016
Other	1,679	1,939	2,036	2,290
<b>Total other provisions</b>	<b>29,181</b>	<b>32,222</b>	<b>30,050</b>	<b>33,082</b>
<b>Total provisions</b>	<b>29,181</b>	<b>32,222</b>	<b>90,828</b>	<b>90,025</b>
<b>Total other provisions and payables</b>	<b>50,983</b>	<b>54,407</b>	<b>115,850</b>	<b>114,893</b>

**A: Reconciliation of movement in provisions**

	General Government		Australian Government	
	2014 \$m	2013 \$m	2014 \$m	2013 \$m
<b>Movement table:</b>				
Balance of provisions at 1 July	32,222	29,707	90,025	84,022
Provisions made during the year	18,456	14,320	26,815	24,644
Provisions used during the year	(13,365)	(12,175)	(17,925)	(19,053)
Provisions remeasured, reversed or unwound during the year	(8,132)	370	(8,087)	412
<b>Balance of provisions at 30 June</b>	<b>29,181</b>	<b>32,222</b>	<b>90,828</b>	<b>90,025</b>

Notes to the financial statements

**Note 33: Net revaluation increases/(decreases)**

	General Government		Australian Government	
	2014 \$m	2013 \$m	2014 \$m	2013 \$m
Financial assets				
Equity investments	7,679	1,437	282	(609)
Non-financial assets				
Land	496	248	498	246
Buildings	139	41	230	(38)
Other infrastructure, plant and equipment	260	168	244	331
Heritage and cultural assets	239	66	239	66
Other non-financial assets	-	(5)	-	(5)
Provision for restoration, decommissioning and makegood	24	37	24	37
Intangibles	-	4	-	4
Total non-financial assets	<b>1,158</b>	<b>559</b>	<b>1,235</b>	<b>641</b>
<b>Total revaluation increases/(decreases)</b>	<b>8,837</b>	<b>1,996</b>	<b>1,517</b>	<b>32</b>

**Note 34: Reconciliation of cash****A: Reconciliation of net operating balance to net cash flows from operating activities**

	General Government		Australian Government	
	2014	2013	2014	2013
	\$m	\$m	\$m	\$m
<b>Net operating balance</b>	<b>(39,751)</b>	<b>(23,119)</b>	<b>(33,253)</b>	<b>(23,449)</b>
<i>less</i> Revenues not providing cash				
Other	554	440	554	440
<b>Total revenues not providing cash</b>	<b>554</b>	<b>440</b>	<b>554</b>	<b>440</b>
<i>plus</i> Expenses not requiring cash				
Increase in employee entitlements	16,301	8,019	16,500	8,175
Depreciation/amortisation expense	6,341	6,429	7,422	7,258
Mutually agreed writedowns	2,627	2,162	2,477	2,162
Other non-cash expenses	(6,867)	706	(6,862)	648
<b>Total expenses not requiring cash</b>	<b>18,402</b>	<b>17,316</b>	<b>19,537</b>	<b>18,243</b>
<i>plus</i> Cash provided by working capital items				
(Increase)/Decrease in receivables	(9,695)	(8,317)	(8,306)	(9,969)
(Increase)/Decrease in inventories	(474)	(797)	(491)	(795)
(Increase)/Decrease in other financial assets	99	921	154	1,259
(Increase)/Decrease in other non-financial assets	(319)	32	(363)	(18)
Increase/(Decrease) in benefits, subsidies and grants payable	(2,410)	4,786	(2,410)	4,786
Increase/(Decrease) in supplier payables	(506)	145	(447)	311
Increase/(Decrease) in other provisions and payables	(1,760)	(410)	(1,347)	(210)
<b>Total cash provided/(used) by working capital items</b>	<b>(15,065)</b>	<b>(3,640)</b>	<b>(13,210)</b>	<b>(4,636)</b>
<b>equals Net cash from/(used by) operating activities</b>	<b>(36,968)</b>	<b>(9,883)</b>	<b>(27,480)</b>	<b>(10,282)</b>

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

	General Government		Australian Government	
	2014	2013	2014	2013
	\$m	\$m	\$m	\$m
Items in the balance sheet				
Financial assets - cash	3,844	2,113	4,514	4,062
Financial liabilities - overdrafts	-	-	-	-
<b>Total items in the balance sheet</b>	<b>3,844</b>	<b>2,113</b>	<b>4,514</b>	<b>4,062</b>
<b>Total as per cash flow statement</b>	<b>3,844</b>	<b>2,113</b>	<b>4,514</b>	<b>4,062</b>

**Note 34: Reconciliation of cash (continued)**

**C: Cash flows associated with entities acquired during the year**

	General Government		Australian Government	
	2014 \$m	2013 \$m	2014 \$m	2013 (a) \$m
During the 2012-13 financial year: On the 13th November 2012 Australia Post Group's equity interest in AUX Investments increased from 50 to 100 percent and AUX became a subsidiary from that date.				
<b>Consideration for acquisition</b>				
Cash	-	-	-	(59)
Other	-	-	-	460
<b>Total consideration</b>	-	-	-	<b>401</b>
<b>Fair value of assets and liabilities of entities acquired were:</b>				
<b>Assets</b>				
Total cash	-	-	-	59
Financial assets	-	-	-	174
Total non-financial assets	-	-	-	462
<b>Total assets</b>	-	-	-	<b>695</b>
<b>Liabilities</b>				
Total debt	-	-	-	585
Total payables	-	-	-	92
Total provisions	-	-	-	109
<b>Total liabilities</b>	-	-	-	<b>786</b>
<b>Net assets</b>	-	-	-	<b>(91)</b>
Interest in entity prior to obtaining control				
Outside equity interest relating to controlled entities				
Australian Government share of net assets acquired	-	-	-	(91)
Goodwill / (discount) on acquisition and other adjustments	-	-	-	479
Acquisition costs written-off	-	-	-	-
Less: investment previously held	-	-	-	(194)
<b>Fair value of Australian Government's share of net assets acquired and goodwill</b>	-	-	-	<b>194</b>

(a) The numbers have been amended to reflect additional information on the AUX Investments tax balances which was not available at the time of preparing the 2012-13 Consolidated Financial Statements. The Australia Government share of net assets decreased by \$15 million.

**Note 35: Commitments**

as at 30 June 2014

	2014 \$m	2013 \$m
<b>BY TYPE</b>		
<b>Capital commitments</b>		
Land and buildings	1,569	952
Infrastructure, plant and equipment	3,019	3,333
Specialist military equipment	10,252	8,915
Investments	12,656	10,456
Other capital commitments	988	1,148
<b>Total capital commitments</b>	<b>28,484</b>	<b>24,804</b>
<b>Other commitments</b>		
Operating leases(c)	20,617	19,331
Project commitments	1,180	1,848
Research and development	2,489	1,384
Goods and services contracts	8,617	15,848
Grant commitments(b)	96,933	131,855
Other commitments	35,415	36,691
<b>Total other commitments</b>	<b>165,251</b>	<b>206,957</b>
<b>Total commitments</b>	<b>193,735</b>	<b>231,761</b>
less Commitments receivable	4,774	2,022
<b>Net commitments</b>	<b>188,961</b>	<b>229,739</b>
<b>BY MATURITY(a)</b>		
<b>Capital</b>		
One year or less	18,679	15,110
From one to five years	7,635	7,620
Over five years	1,041	1,198
	27,355	23,928
<b>Operating leases</b>		
One year or less	2,718	2,544
From one to five years	7,986	7,329
Over five years	7,959	9,200
	18,663	19,073
<b>Other</b>		
One year or less	49,445	47,949
From one to five years	83,874	98,789
Over five years	9,624	40,000
	142,943	186,738
<b>Net commitments by maturity</b>	<b>188,961</b>	<b>229,739</b>

(a) The maturity schedule for capital commitments, operating lease commitments and other commitments are presented net of commitments receivable.

(b) The decrease in grant commitments is largely attributable to legislated education obligations where a funding determination has not yet been signed. The legislation comprises the *Australian Education Act 2013* and the *Higher Education Support Act 2003*. The commitments schedule does not include commitments for grants payable to the States and Territories under the *Federal Financial Relations Act 2009* (for the current and comparative years). The budgeted information for payment of grants to States and Territories can be found in the Budget Paper No. 3.

**Note 35: Commitments (continued)**

as at 30 June 2014

(c) Operating leases comprise of the following:

Nature of lease	General description of leasing arrangement
Leases for computer equipment	<p>Most agencies lease computer equipment and software.</p> <p>Computer leases are generally for three to five years with an option to renew for one to two further periods of two to three years each. In some cases there are no renewal or purchase options available to the agencies.</p> <p>Leases are effectively non-cancellable.</p> <p>No contingent rentals exist.</p>
Leases for office accommodation	<p>Most agencies lease office accommodation from parties outside the Australian Government.</p> <p>Leases for office accommodation generally range from one to 15 years. They may be extended for up to three to five years from the originally specified expiry date. In some cases there are no renewal or purchase options available to the agencies.</p> <p>Leases are effectively non-cancellable.</p> <p>In most cases lease payments are subject to increases in accordance with terms as negotiated under the lease (generally subject to annual increase in accordance with upwards movements in the consumer price index, a set annual increase agreed to in the lease or an annual/bi-annual review).</p>
Agreements for the provision of motor vehicles	<p>Most agencies lease motor vehicles as part of the senior executive officers remuneration packages and also for general office use.</p> <p>Vehicle leases are generally for a minimum period of three months and typically extend from two to four years. They may be extended for up to three months from the originally specified expiry date. In some cases there are no renewal or purchase options available to the agencies.</p> <p>Leases are effectively non-cancellable.</p> <p>No contingent rentals exist.</p> <p>Lease payments are fixed for the term of the lease.</p>
Leases for office equipment	<p>Most agencies lease office equipment.</p> <p>Office equipment leases are generally for three to five years. In some cases there are no renewal or purchase options available to the agencies.</p> <p>Leases are effectively non-cancellable.</p> <p>No contingent rentals exist.</p> <p>In some cases there are additional costs based on usage of the equipment.</p>
Leases for transportation and support facilities for Antarctic operations	<p>Lease payments are subject to increases in accordance with terms as negotiated under the lease.</p> <p>The transportation leases generally have options for renewal. Future options not yet exercised are not included as commitments.</p> <p>Leases are effectively non-cancellable and no contingent rentals exist.</p>

**Note 35: Commitments (continued)****Commitments by sector<sup>(a)</sup>**

as at 30 June 2014

	General government		Public non-financial corporations		Public financial corporations	
	2014	2013	2014	2013	2014	2013
	\$m	\$m	\$m	\$m	\$m	\$m
<b>BY TYPE</b>						
<b>Capital commitments</b>						
Land and buildings	1,480	884	96	75	-	-
Infrastructure, plant and equipment	1,313	1,222	1,676	2,111	37	14
Specialist military equipment	10,252	8,915	-	-	-	-
Investments	33,738	35,624	-	4	-	-
Other capital commitments	986	1,148	-	-	2	-
<b>Total capital commitments</b>	<b>47,769</b>	<b>47,793</b>	<b>1,772</b>	<b>2,190</b>	<b>39</b>	<b>14</b>
<b>Other commitments</b>						
Operating leases	18,708	17,667	1,658	1,433	342	329
Project commitments	1,180	1,916	-	-	-	-
Research and development	2,489	1,384	-	-	-	-
Goods and services contracts	6,355	13,355	2,453	2,725	1	2
Grant commitments (b)	96,933	131,855	-	-	-	-
Other commitments	33,595	33,807	1,931	3,040	-	-
<b>Total other commitments</b>	<b>159,260</b>	<b>199,984</b>	<b>6,042</b>	<b>7,198</b>	<b>343</b>	<b>331</b>
<b>Total commitments</b>	<b>207,029</b>	<b>247,777</b>	<b>7,814</b>	<b>9,388</b>	<b>382</b>	<b>345</b>
less Commitments receivable	4,527	1,841	21,682	25,764	10	6
<b>Net commitments</b>	<b>202,502</b>	<b>245,936</b>	<b>(13,868)</b>	<b>(16,376)</b>	<b>372</b>	<b>339</b>
<b>BY MATURITY(c)</b>						
<b>Capital</b>						
One year or less	22,303	18,592	1,539	1,609	38	9
From one to five years	23,282	26,036	233	579	2	5
Over five years	1,041	2,268	-	2	-	-
	46,626	46,896	1,772	2,190	40	14
<b>Operating leases</b>						
One year or less	2,432	2,281	241	229	45	33
From one to five years	7,131	6,575	700	643	155	112
Over five years	7,115	8,495	707	527	137	178
	16,678	17,351	1,648	1,399	337	323
<b>Other</b>						
One year or less	48,187	46,533	(3,902)	(4,145)	(2)	1
From one to five years	81,242	95,025	(14,333)	(17,128)	(3)	1
Over five years	9,769	40,131	947	1,308	-	-
	139,198	181,689	(17,288)	(19,965)	(5)	2
<b>Net commitments by maturity</b>	<b>202,502</b>	<b>245,936</b>	<b>(13,868)</b>	<b>(16,376)</b>	<b>372</b>	<b>339</b>

(a) Transactions between sectors are included in this statement but eliminated in the consolidated statements to avoid double counting. Accordingly, the sum of the amounts for each line item may exceed or be less than the equivalent amount in the consolidated statements.

(b) The decrease in grant commitments is largely attributable to legislated education obligations where a funding determination has not yet been signed. The legislation comprises the *Australian Education Act 2013* and the *Higher Education Support Act 2003*. The commitments schedule does not include commitments for grants payable to the States and Territories under the *Federal Financial Relations Act 2009* (for the current and comparative years). The budgeted information for payment of grants to States and Territories can be found in the Budget Paper No. 3.

(c) The maturity schedule for capital commitments, operating lease commitments and other commitments are presented net of commitments receivable.

**Note 36: Contingencies**  
as at 30 June 2014

	2014 \$m	2013 \$m
<b>Quantifiable contingent liabilities</b>		
Guarantees(a)	15,216	15,229
Indemnities(b)	232	447
Uncalled shares/capital subscriptions(c)	13,474	13,251
Claims for damages/costs	181	232
Other contingencies	5,442	7,263
<b>Total quantifiable contingent liabilities</b>	<b>34,545</b>	<b>36,422</b>
<i>less</i> Quantifiable contingent assets	190	332
<b>Net quantifiable contingencies</b>	<b>34,355</b>	<b>36,090</b>

(a) A guarantee is where one party promises to be responsible for the debt or performance obligations of another party should that party default in some way. This includes 2013 restatement of Treasury's contingencies relating to International Monetary Fund (IMF) New Arrangements to Borrow (NAB) (\$7,085 million) and IMF bilateral loan (\$7,700 million).

(b) An indemnity is a legally binding promise whereby a party undertakes to accept the risk of loss or damage another party may suffer.

(c) Uncalled shares/capital subscriptions include uncalled shares of \$13,415 million (2013: \$13,192 million) in the European Bank for Reconstruction and Development, the International Bank for Reconstruction and Development, the Multilateral Investment Guarantee Agency and the Asian Development Bank.

**A. Reconciliation of movement in quantifiable contingent assets**

	2014 \$m	2013 \$m
<b>Quantifiable contingent assets</b>		
Opening balance as at 1 July	332	247
Increases	141	84
Re-measurement	(20)	61
Assets crystallised	(248)	(58)
Expired	(15)	(2)
<b>As at 30 June</b>	<b>190</b>	<b>332</b>



**Note 36: Contingencies (continued)****B. Reconciliation of movement in quantifiable contingent liabilities**

	Guarantees \$m	Indemnities \$m	Uncalled shares or capital subscriptions \$m	Claims for damages or costs \$m	Other quantifiable contingencies \$m	Total \$m
Opening balance as at 1 July 2013	15,229	447	13,251	232	7,263	36,422
Increases	35	1	-	94	1,232	1,362
Re-measurement	(15)	(189)	223	7	(1,161)	(1,135)
Liabilities crystallised	-	-	-	(43)	(1)	(44)
Obligations expired	(33)	(27)	-	(109)	(1,891)	(2,060)
<b>As at 30 June 2014</b>	<b>15,216</b>	<b>232</b>	<b>13,474</b>	<b>181</b>	<b>5,442</b>	<b>34,545</b>
	Guarantees \$m	Indemnities \$m	Uncalled shares or capital subscriptions \$m	Claims for damages or costs \$m	Other quantifiable contingencies \$m	Total \$m
Opening balance as at 1 July 2012	368	365	10,198	185	4,747	15,863
Increases	14,876	-	-	74	3,822	18,772
Re-measurement	6	101	3,053	12	1,467	4,639
Liabilities crystallised	-	-	-	(15)	-	(15)
Obligations expired	(21)	(19)	-	(24)	(2,773)	(2,837)
<b>As at 30 June 2013</b>	<b>15,229</b>	<b>447</b>	<b>13,251</b>	<b>232</b>	<b>7,263</b>	<b>36,422</b>

**Note 36: Contingencies (continued)**

**C. Contingent liabilities excluded on the basis of remoteness**

	2014	2013
	\$m	\$m
<b>Remote contingent liabilities</b>		
Financial Claims Scheme(a)	722,800	688,200
Guarantee Scheme for large deposits and wholesale funding(b)	14,800	48,300
Guarantee of State and Territory Borrowing(c)	15,700	25,400
Accommodation Bond Guarantee Scheme(d)	14,200	13,000
Guarantees in relation to NBN Co(e)	10,105	5,800
Commonwealth Bank of Australia and Commonwealth Bank of Australia - Officers Superannuation Fund (f)	5,092	4,931
Space Activities Act 1998 (g)	3,000	3,100
Other	5,055	5,208
<b>Total remote contingent liabilities</b>	<b>790,752</b>	<b>793,939</b>

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

**(a) Financial Claims Scheme**

The Australian Government has established a Financial Claims Scheme to provide depositors of authorised deposit-taking institutions and general insurance policyholders with timely access to their funds in the event of a financial institution failure.

The Australian Prudential Regulation Authority (APRA) is responsible for the administration of the Financial Claims Scheme. Under the Financial Claims Scheme any payments to eligible depositors or general insurance policyholders will be made out of APRA's Financial Claims Scheme Special Account.

The Early Access Facility for Depositors established under the *Banking Act 1959* provides a mechanism for making payments to depositors under the Government's guarantee of deposits in authorised deposit-taking institutions. From 1 February 2012, deposits up to \$250,000 at eligible authorised deposit-taking institutions would be eligible for coverage under the Financial Claims Scheme. This \$250,000 cap has no expiry date.

As at 30 June 2014, deposits eligible for coverage under the Financial Claims Scheme were estimated to be approximately \$722 billion.

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.

Amounts available to meet payments and administer both facilities, in the event of activation, are capped at \$20.1 billion under the legislation.

Any payments made under the Financial Claims Scheme would be recovered through the liquidation of the failed institution. If there were a shortfall, a levy would be applied to industry to recover the difference between the amount expended and the amount recovered in the liquidation.

**(b) Guarantee of large deposits and wholesale funding in authorised deposit taking institutions**

The Australian Government announced the guarantee of eligible deposits and wholesale funding for authorised deposit-taking institutions from 12 October 2008 under the Guarantee Scheme for Large Deposits and Wholesale Funding.

On 7 February 2010, the Government announced the closure of the Guarantee Scheme from 31 March 2010. Since then, Australian authorised deposit-taking institutions have been prohibited from issuing any new guaranteed wholesale funding or accepting new guaranteed deposits above \$1 million. Existing guaranteed wholesale funding is guaranteed to maturity. Depositors who covered their balances above \$1 million under the Guarantee Scheme can have those funds covered to maturity for term deposits up to five years, or until October 2015 for at call deposits.

The expected liability for deposits under the Guarantee Scheme is remote and unquantifiable. Australia's financial system is considered among the strongest and best regulated in the world. Authorised deposit-taking institutions are subject to prudential regulation by APRA in accordance with international standards, which are designed to ensure that financial institutions have the capacity to meet their financial obligations. This framework requires institutions to be adequately capitalised and have appropriate risk management systems in place. Furthermore, Australia's four major banks (which hold the majority of government wholesale funding) are among only ten large banking groups globally rated AA or higher.

Government expenditure would arise under the large deposit guarantee only in the unlikely event that an institution failed to meet its obligations with respect to a commitment that was subject to the guarantee and the guarantee was called upon. In such a case, the Government would likely be able to recover any such expenditure through a claim on the relevant institution. The impact on the Government's budget would depend on the extent of the institution's default and its ability to meet the Government's claim.

As at 30 June 2014, total liabilities covered by the Guarantee Scheme were estimated at \$14.8 billion, including \$2.3 billion of large deposits and \$12.5 billion of wholesale funding.

**(c) Guarantee of State and Territory Borrowing**

The Australian Government announced on 25 March 2009 that a voluntary and temporary guarantee would be put in place over state and territory borrowing. The Guarantee of State and Territory Borrowing commenced on 24 July 2009.

The guarantee closed to new issuances of guaranteed liabilities on 31 December 2010. Securities covered by the guarantee will continue to be guaranteed until these securities either mature or are bought back and extinguished by the issuer.

The expected liability under the guarantee is remote and unquantifiable. Government expenditure would arise under the guarantee only in the unlikely event that a State or Territory failed to meet its obligations with respect to a commitment that was subject to the guarantee and the guarantee was called upon. In such a case, the Government would likely be able to recover any such expenditure through a claim on the relevant State or Territory at a future date. The impact on the Government's budget would depend upon the extent of the default and the State or Territory's ability to meet the Government's claim.

As at 30 June 2014, the face value of State and Territory borrowings covered by the guarantee was \$15.7 billion.

**(d) Accommodation Bond Guarantee Scheme**

The Accommodation Bond Guarantee Scheme (the Guarantee Scheme) guarantees the repayment of aged care residents' accommodation bond, entry contribution balances and, from 1 July 2014, refundable accommodation deposits and contributions if the approved provider becomes insolvent or bankrupt and defaults on its refund obligations. In return for the payment, the rights that the resident had to recover the amount from their approved provider are transferred to the Australian Government so it can pursue the approved provider for the funds. In cases where the funds are unable to be recovered, the Australian Government may levy all approved providers holding bonds to meet any shortfall.

From the latest available information, the maximum contingent liability, in the unlikely event that all providers defaulted, is \$14.2 billion.

**(e) Guarantees in relation to NBN Co**

The Australian Government has provided guarantees in respect of NBN Co as follows:

**(i) Telstra Financial Guarantee**

The Australian Government has provided a guarantee to Telstra in respect of NBN Co's financial obligations to Telstra under the Definitive Agreements. The Definitive Agreements are long-term contracts and, in the case of the infrastructure component, involve terms of at least 35 years. The liabilities under the Definitive Agreements arise progressively during the roll out of the network as infrastructure is accessed and subscribers to Telstra's existing network are disconnected. As at 30 June 2014, NBN Co had generated liabilities covered by the Guarantee estimated at \$3.4 billion. The Guarantee will terminate when NBN Co achieves specified credit ratings for a period of two continuous years and either:

- the company is fully capitalised; or
- the Communications Minister declares, under the *National Broadband Network Companies Act 2011*, that, in his or her opinion, the national broadband network should be treated as built and fully operational.

(ii) Optus Financial Guarantee

The Commonwealth has provided a guarantee to Optus of NBN Co's financial obligations to Optus under the NBN Co-Optus Agreement. That agreement extends for the period of the national broadband network roll out in Optus Hybrid Fibre Coaxial areas. As at 30 June 2014, NBN Co had generated liabilities covered by the Optus Agreement estimated at \$5.1 million. The Guarantee will terminate in 2021.

(iii) NBN Co Limited – Equity Agreement

The Australian Government has entered into an Equity Funding Agreement with NBN Co. The Agreement formalises the Commonwealth's intention to provide equity to fund the roll out of the National Broadband Network, with such funding being conditional on the annual appropriation processes. In addition, it commits the Commonwealth, in the event of a termination of the national broadband network roll out, to provide sufficient funds to NBN Co to meet its direct costs arising from that termination. The NBN Co Equity Agreement terminates in 2021. As at 30 June 2014, NBN Co's termination liabilities were estimated at \$6.7 billion.

**(f) Commonwealth Bank of Australia and Commonwealth Bank of Australia Officers' Super Fund**

Under the terms of the *Commonwealth Bank Sale Act 1995*, the Australian Government has guaranteed various liabilities of the Commonwealth Bank of Australia (CBA), and the Commonwealth Bank Officers' Superannuation Corporation (CBOSC). The guarantee for the CBA relates to both on and off balance sheet liabilities. The guarantee of the CBOSC covers the due payments of any amount that is payable to or from Officers' of the Superannuation Fund (the Fund), by CBOSC or by CBA, in respect of a person who was a member, retired member or beneficiary of the Fund immediately before 19 July 1996. The guarantee of the CBA and CBOSC reflected in the above table is the value at 30 June 2014.

**(g) Space Activities Act 1998**

The Australian Government is liable under the UN Convention on International Liability for Damage Caused by Space Objects for injury or damage to foreign nationals arising from space launches from Australia. The *Space Activities Act 1998* requires the launch operator to insure against liability up to a prescribed amount, with the Australian Government bearing any liability above this amount. The Australian Government also accepts liability for damage suffered by Australian nationals, to a maximum value of \$3 billion above the insured level.

**Note 36: Contingencies (continued)**

**Contingencies by sector<sup>(a)(b)</sup>**

as at 30 June 2014

	General Government		Public non-financial corporations		Public financial corporations	
	2014 \$m	2013 \$m	2014 \$m	2013 \$m	2014 \$m	2013 \$m
<b>Quantifiable contingent liabilities</b>						
Guarantees	14,827	14,860	389	368	-	-
Indemnities	232	447	-	-	-	-
Uncalled shares/capital subscriptions	13,415	13,193	-	-	59	58
Claims for damages/costs	174	208	7	4	-	20
Other contingencies	5,441	7,263	1	-	-	-
<b>Total quantifiable contingent liabilities</b>	<b>34,089</b>	<b>35,971</b>	<b>397</b>	<b>372</b>	<b>59</b>	<b>78</b>
<i>less</i> Quantifiable contingent assets	145	313	15	18	30	1
<b>Net quantifiable contingencies</b>	<b>33,944</b>	<b>35,658</b>	<b>382</b>	<b>354</b>	<b>29</b>	<b>77</b>
Contingencies excluded from the schedule of contingencies on the basis of remoteness						
<b>Remote contingent liabilities</b>						
Guarantees(c)	840,099	841,561	-	-	976	880
Other(d)	13,818	11,121	-	-	447	605
<b>Total remote contingent liabilities</b>	<b>853,917</b>	<b>852,682</b>	<b>-</b>	<b>-</b>	<b>1,423</b>	<b>1,485</b>

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

- (a) Refer to the Australian Government Contingency disclosures for further details on quantifiable and non-quantifiable contingencies.
- (b) Transactions between sectors are included in this statement but eliminated in the consolidated statements to avoid double counting. Accordingly, the sum of the amounts for each line item may exceed or be less than the equivalent amount in the consolidated statements.
- (c) The reported remote guarantees for the general government sector include guarantees to the Reserve Bank of Australia of \$60,778 million (2013: \$56,943 million), guarantees to the Commonwealth Bank of Australia and the Commonwealth Bank of Australia Officers' Superannuation Fund of \$5,092 million (2013: \$4,931 million), guarantees for the Financial Claims Scheme of \$722,800 million (2013: \$688,200 million), guarantees of State and Territory borrowings of \$15,700 million (2013: \$25,400 million) and the guarantee of large deposits and wholesale funding in authorised deposit taking institutions of \$14,800 million (2013: \$48,300 million).
- (d) The reported other remote contingent liabilities include the *Space Activities Act 1998* of \$3,000 million (2013: \$3,100 million).

## Non-quantifiable contingent liabilities

Contingent liabilities and contingent assets represent possible costs or gains to the Australian Government arising from past events, which will be confirmed or otherwise by the outcome of future events that are not within the Government's ability to control or where the cost or gain cannot be reliably measured.

Contingent liabilities include loan guarantees, non-loan guarantees, warranties, indemnities, uncalled capital and letters of comfort. These possible costs are in addition to those recognised as liabilities in the Consolidated Financial Statements.

Contingent assets include, for example, claims that the Australian Government is pursuing through legal processes, where the outcome is uncertain.

Unquantifiable contingencies identified and reported in the 2013-14 Consolidated Financial Statements for the first time include<sup>1</sup>:

- New South Wales Health Administration Council - indemnity;
- Tobacco plain packaging litigation; and
- Medicare Locals.

The following pages list unquantifiable contingencies by portfolio. For further information on these contingencies refer to the individual agency's website.

### Agriculture

#### Compensation claims arising from suspension of livestock exports to Indonesia

The Australian Government has received correspondence that indicates there are a number of potential claimants who are alleging losses due to the temporary suspension of exports of live animals to Indonesia that was put in place on 7 June 2011. Proceedings have commenced against the Commonwealth and at this date the amount of the claims remains unquantified.

### Attorney General's

#### Australian Victims of Terrorism Overseas Payment

The *Social Security Amendment (Supporting Australian Victims of Terrorism Overseas) Act 2012* inserted Part 2.24AA into the *Social Security Act 1991* (the Act) to create a scheme for providing financial assistance to Australians who are victims of an overseas terrorist act that has been declared by the Prime Minister. The scheme commenced on 23 January 2013. Under the scheme, Australians harmed (primary victims) and Australians who are close family members of a person who dies as a direct result of a

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1 A number of the new contingent liabilities have previously been reported in the Statement of Risks included in the Australian Government budget documentation.

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declared terrorist act (secondary victims) will be able to claim payments of up to \$75,000. As acts of terrorism are unpredictable, the cost of the scheme is unquantifiable.

### **Native title agreements — access to geospatial data**

The Australian Government has entered into agreements with State and Territory government bodies and/or their agents to access their geospatial land tenure data, which is essential to support the National Native Title Tribunal in achieving its outcomes. Under these agreements, the Australian Government provides indemnities against third-party claims arising from errors in the data.

### **Native title costs**

The Australian Government can assist State and Territory governments in meeting certain Native Title costs pursuant to the *Native Title Act 1993* (the NTA), including compensation costs. A National Partnership Agreement was executed in 2010 between the Australian Government and Victoria, under which the Australian Government provided a contribution towards the settlement of two native title claims. No other agreement has been entered into to date.

The Australian Government will also be liable for any compensation found to be payable under the NTA in respect of compensable acts for which the Commonwealth is responsible.

The Australian Government's liability in both scenarios cannot be quantified owing to uncertainty about the number and effect of compensable acts and the value of Native Title affected by those acts.

## **Defence**

### **Cockatoo Island Dockyard**

On 13 October 2001, Cockatoo Island Dockyard (CODOCK) commenced proceedings against the Australian Government (Defence) in the NSW Supreme Court seeking full reimbursement from the Australian Government for personal injury claims costs incurred by CODOCK after 31 October 1995 in relation to asbestos exposure. Following decisions in the NSW Supreme Court on 17 December 2004 and 4 February 2005, and the NSW Court of Appeal on 23 November 2006, CODOCK was awarded a complete indemnity from the Australian Government for its uninsured exposure to asbestos damages claims, plus profit of 7.5 per cent.

## **Finance (refer also contingencies under 'Various')**

### **Australian Government general insurance fund – Comcover**

Comcover, the Australian Government's general insurance fund, provides insurance and risk management services to the Australian Government general government sector. Comcover's liability for outstanding claims, which includes the expected future cost of claims notified and claims incurred but not reported, is subject to inherent



uncertainty in the estimation process. The Australian Government's potential liability cannot be quantified at this time.

### Superannuation

On 20 April 2007, the High Court of Australia found against the Australian Government on a claim for negligent misstatement relating to superannuation benefits for a former employee of the Department of the Interior. There is potential for more claims to arise from other former temporary employees who upon their retirement can demonstrate negligent misstatement over their eligibility to join an Australian Government superannuation scheme.

### Health

#### Australian Red Cross Society — indemnities and blood and blood products liability cover

The existing Deed of Agreement between the Commonwealth and the Australian Red Cross Society (ARCS) and the National Blood Authority (NBA) in relation to the operations of the Australian Red Cross Blood Service (ARCBS), includes certain indemnities and limited liability in favour of ARCS. These cover a defined set of potential business, product and employee risks and liabilities arising from the operation of the ARCBS. The indemnities and limitation of liability only operate in the event of the expiry and non-renewal, or the early termination of the Deed, and only within a certain scope. They are also subject to appropriate limitations and conditions including in relation to mitigation, contributory fault, and the process of handling relevant claims. Under certain conditions the Australian Government, States and Territories jointly provide indemnity for the ARCBS through a cost-sharing arrangement in relation to the National Managed Fund claims, both current and potential, regarding personal injury and loss or damages suffered by a recipient of certain blood and blood products where other available mitigation or cover is not available. Under a Memorandum of Understanding between governments and the ARCBS, the blood and blood products liability cover for the ARCBS remains in force until all parties agree to terminate the arrangements from an agreed date.

#### CSL Ltd

Under existing agreements, the Australian Government has indemnified CSL Ltd for certain existing and potential claims made for personal injury, loss or damage suffered through therapeutic and diagnostic use of certain products manufactured by CSL Ltd. The Australian Government has indemnified CSL Ltd for a specific range of events that occurred during the Plasma Fractionation Agreement from 1 January 1994 to 31 December 2004, where alternative cover was not arranged by CSL Ltd.

#### Medical Indemnity

The Department of Human Services delivers the Incurred But Not Reported Scheme (IBNRS) on behalf of the Australian Government. The IBNR scheme is designed to fund the IBNR liabilities of Medical Defence Organisation's where they do not have

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adequate reserves to cover their liabilities. Eligibility for claim payments under this scheme is dependent on whether the Medical Indemnity Insurer (MII) is deemed to be a participating Medical Defence Organisation under the *Medical Indemnity Act 2002* and the *Midwife Professional Indemnity (Commonwealth Contribution) Scheme Act 2010*.

### Medical Indemnity Exceptional Claims Scheme

In May 2003, the Australian Government announced that the Medical Indemnity Exceptional Claims Scheme was to assume liability for 100 per cent of any damages payable against a doctor that exceeds a specified level of cover provided by that doctor's medical indemnity insurer (currently \$20 million). These arrangements would apply to payouts either related to a single large claim or to multiple claims that in aggregate exceed the cover provided by the doctor's medical indemnity insurer, and would apply to claims notified under contracts-based cover since 1 January 2003.

### Vaccines

Under certain conditions, the Australian Government has provided an indemnity to the manufacturer of smallpox vaccine held by the Australian Government, covering possible adverse events that could result from the use of the vaccine in an emergency situation. Further, under certain conditions, certain indemnities have been provided to particular manufacturers of pandemic and pre-pandemic influenza vaccines for the supply or future supply of influenza vaccines (including H1N1 and H5N1). For the period ended 30 June 2014, no claims have been made. The contract under which the contingent liability is recognised has now expired. However, until replacement stock is sourced the contingent liability for use of the vaccine currently held remains with the Commonwealth.

### The Australian Medical Association

There is an agreement between the Australian Medical Association Ltd (AMA), the Commonwealth, Australian Private Hospitals Association Ltd, Australian Health Insurance Association and Beyond Blue Ltd for participation in and support of the Private Mental Health Alliance. In respect of identified information collected, held or exchanged by the parties in connection with the National Model for the Collection and Analysis of a Minimum Data Set with Outcome Measures in Private, Hospital-based Psychiatric Services each party has agreed to indemnify each other in respect of any loss, liability, cost, claim or expense, misuse of confidential information or breach of the *Privacy Act 1988*. The AMA's liability to indemnify the other parties will be reduced proportionally to the extent that any unlawful or negligent act or omission of the other parties or their employees or agents contributed to the loss or damage.

#### **New South Wales Health Administration Council – indemnity**

The National Health Funding Body (NHFB) provided an indemnity to the New South Wales government through the New South Wales Health Administration Council (NSW HAC), in relation to a state funding pool account with the Reserve Bank of Australia. The indemnity includes liabilities or claims arising in relation to the NHFB in two respects:

- (i) liabilities or claims arising from acts or omissions of NHFB staff as users of pool account information; and
- (ii) liabilities or claims arising from unauthorised access to the banking services or system from NHFB premises.

NSW HAC has provided a reciprocal indemnity for the actions of staff of the NHFB to the Reserve Bank of Australia.

#### **Tobacco Plain Packaging Litigation**

The Government will continue to fund the defence of legal challenges to the tobacco plain packaging legislation in international forums. Further information about these cases has not been disclosed on the grounds that it may prejudice the outcomes of these cases or may relate to commercial information.

#### **Medicare Locals**

Due to the Government's commitment to cease all Commonwealth funding to Medicare Locals from 30 June 2015 the Commonwealth is terminating the Medicare Locals Deed for Funding and Programme Schedules under clause 22.1(i). The Commonwealth is therefore liable for any reasonable costs incurred by Medicare Locals which are directly attributable to the termination. Some funds are also expected to be recovered from a number of sites as a result of the termination, which would partially offset the liability. Neither costs nor potential recoveries can be estimated at present.

#### **Immigration and Border Protection**

##### **Northern Maritime Patrol and Response - Triton**

The Australian Government has entered into a contractual arrangement with Gardline Australia Pty Ltd until 31 December 2014 for the provision of a vessel to strengthen enforcement activities in Australia's northern waters. The contract with Gardline Australia contains unquantifiable indemnities relating to the use, or other operations, of armaments and the presence of armaments on the vessel. It also contains unquantifiable indemnities relating to damage to any property or injury to any person caused by the apprehended or escorted persons or their vessel.

### Southern Ocean Maritime Patrol and Response Programme

The Australian Government has entered into a contract to provide a Civil Charter Vessel to conduct patrols in the Southern Ocean and northern waters to undertake law enforcement activities in relation to illegal, unregulated and unreported fishing as well as counter people smuggling activities. This contract will remain in force until 31 December 2014. The Australian Government's contract contains unquantifiable indemnities relating to the use or other operations of armaments and ammunition and the presence of armaments and ammunition on the vessel. It also contains unquantifiable indemnities relating to damage to any property or injury to any person caused by the apprehended or escorted persons or their vessels.

### Immigration Detention Services — liability limits

The Australian Government has negotiated arrangements with a number of State and Territory governments for the provision of various services (including health, education, corrections and policing services) to immigration detention facilities and people in immigration detention. Some jurisdictions are seeking indemnification by the Australian Government for the provision of those services.

### Infrastructure and Regional Development

#### Australian Maritime Safety Authority — incident costs

In the normal course of operations, the Australian Maritime Safety Authority is responsible for the provision of funds necessary to meet the clean-up costs arising from ship-sourced marine pollution and, in all circumstances, is responsible for making appropriate efforts to recover the costs of any such incidents.

### Industry

#### Snowy Hydro Limited — water releases

The Australian, New South Wales and Victorian governments have indemnified Snowy Hydro Limited for liabilities arising from water releases in the Snowy River below Jindabyne Dam, where these releases are in accordance with the water licence and related regulatory arrangements agreed between the three governments. The indemnity applies to liabilities for which a claim is notified within 20 years from 28 June 2002.

#### Liquid Fuel Emergency Act 1984

The Australian Government has responsibility for the *Liquid Fuel Emergency Act 1984* (the Act). In addition, the Australian Government and State and Territory governments have entered into an inter-governmental agreement in relation to a national liquid fuel emergency (IGA 2006). Under the IGA, the Australian Government agrees to consult IGA parties on a likely shortage and, if necessary after those consultations, to advise the Governor-General to declare a national emergency under the Act. The IGA also contains three areas where the Australian Government may incur expenses in the unlikely event of a national liquid fuel emergency. These relate to

the direct costs of managing a liquid fuel emergency and include the possibility of the Australian Government reimbursing the State and Territory governments for costs arising from their responses, and potential compensation for industry arising from Australian Government directions under the Act.

#### Indemnity for Maralinga clean-up

The Australian Government has given 14 unlimited indemnities in relation to the clean-up of the former British atomic test site at Maralinga.

#### Gorgon liquefied natural gas and carbon dioxide storage project

The Australian and Western Australian governments have agreed in principle to provide an indemnity to the Gorgon Joint Venture Partners (GJV) to indemnify the GJV against independent third-party claims (relating to stored carbon dioxide) under common law following closure of the carbon dioxide sequestration project, and subject to conditions equivalent to those set out in the *Offshore Petroleum and Greenhouse Gas Storage Act 2006*. It is proposed that the Western Australian Government will indemnify the GJV, and that the Australian Government will indemnify the Western Australian Government for 80 per cent of any amount determined to be payable under that indemnity. The formal agreement between the Australian and Western Australian governments in relation to the indemnity is expected to be signed in 2014-15.

#### Social Services

##### Business Services Wage Assessment Tool - Litigation

The Australian Government may potentially become liable for a significant range of costs following the full Federal Court ruling (21 December 2012) that the use of the Business Services Wage Assessment Tool (BSWAT) to assess the wages of two intellectually disabled employees constituted unlawful discrimination under the *Disability Discrimination Act 1992*. The Australian Government's potential liability cannot be quantified at this time.

#### Treasury

##### Commitments under expanded IMF New Arrangements to Borrow (NAB)

Australia has made a line of credit available to the IMF under its NAB since 1998. During 2014 Australia met six calls under the NAB totalling A\$209.5 million (SDR 126.4 million). In 2012-13 Australia provided A\$185.4 million (SDR 126.0 million) under the NAB. Under the IMF's current 'Resource Mobilization Plan', a maximum of Special Drawing Rights (SDR) 36.4 million (A\$59.5 million as at 30 June 2014) could have been called by the IMF between the period 1 July 2014 to 30 September 2014. Subsequent to this period, the amount is subject to change. The precise amount that will be called by the IMF cannot be determined accurately. As at the completion of these statements, the IMF has not called on the NAB.

### Grants to States and Territories

As the Treasury has responsibility for all payments to the States and Territories under the Federal Financial Relations Framework, remote and unquantifiable liabilities may exist in relation to some agreements between the relevant agency with policy responsibility and the States and Territories. Whilst the Treasury does not bear the risk of the contingent event, the resultant payment would be made and reported by the Treasury under the Federal Financial Relations Framework.

### Loan to New South Wales for James Hardie Asbestos Injuries Compensation Fund

The Australian Government has agreed to lend up to \$160 million to the State Government of New South Wales (NSW) to support the loan facility to top up the James Hardie Asbestos Injuries Compensation Fund. Draw down on the loan is subject to the James Hardie Asbestos Injuries Compensation Fund requiring funds to meet its liabilities and is contingent on NSW meeting a number of conditions under the loan agreement with the Australian Government. The timing and amounts that may be drawn down by NSW cannot be determined accurately. A further \$25.3 million in funding was provided to the State Government of NSW in respect of the loan facility in 2013-14. (2012-13: \$0).

### Terrorism insurance — Australian Reinsurance Pool Corporation (ARPC)

The *Terrorism Insurance Act 2003* established a scheme for replacement terrorism insurance covering damage to commercial property including associated business interruption and public liability. The Australian Reinsurance Pool Corporation (ARPC) uses reinsurance premiums paid by insurers to meet its administrative expenses and to build a fund and purchase reinsurance to help meet future claims. The Australian Government guarantees to pay any liabilities of the ARPC, but the Treasurer must declare a reduced payout rate to insured parties if the Australian Government's liability would otherwise exceed \$10 billion.

### Various

#### Officers' and directors' indemnities

From time to time, the Australian Government has provided warranties, undertakings and indemnities (indemnities) to directors, committee members, advisors 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. Indemnities have been issued in relation to:

- the directors of NBN Co as a result of the Commonwealth failing to meet its funding obligations to NBN Co. The liabilities covered by this indemnity would be the same as those covered by the NBN Co Equity Agreement, with the exception of any legal expenses incurred by individual Directors arising from this indemnity. Relevant Directors are also indemnified in relation to claims arising out of their involvement in the negotiation and entry by NBN Co into the Financial Heads of

Agreement, dated June 2010, with Telstra (through the Department of Communications);

- Export Finance and Insurance Corporation (EFIC) board members and senior management to protect against civil claims and legal expenses for unsuccessful criminal claims relating to the implementation of EFIC's alliance/divestment of its short-term export credit insurance business;
- Maritime Industry Finance Company Ltd board members to protect them against civil claims relating to their employment and conduct as directors (through the Department of Infrastructure and Regional Development);
- certain specified members of the review into the Australian Human Pituitary Hormone Programme for the purposes of the review (Department of Health);
- certain specified members of the review into the Diagnostics Products Agreement for the purpose of the review (Department of Health);
- officers of the Australian Nuclear Science and Technology Organisation from liability that might be incurred from the conduct of activities authorised under the Australian Nuclear Science and Technology Organisation Act 1987 (Department of Industry);

In relation to the sale of Australian Government entities, the Australian Government has indemnified the boards and/or acquirers of certain entities against certain claims and costs arising from the sales of the entities.

#### Other guarantees, indemnities and undertakings

A range of guarantees, indemnities and undertakings have been provided by Australian Government entities in relation to various matters. Some of these guarantees, indemnities and undertakings are unlimited.

#### Claims and legal actions

At any time various Australian Government entities are subject to claims and legal actions that are pending court or other processes.

#### Property remediation — Defence and other sites

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.

The Australian Government has detected some contamination at the former site of the National Halon Bank in Braybrook, Victoria, which was leased to the Commonwealth. Investigations are continuing into the cause, source and timing of the contamination. Once these investigations have been completed, the extent of any potential soil and



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groundwater remediation costs for the parties involved, including the Commonwealth, will be clearer.

### **Lease arrangements**

Various Australian Government entities have entered into finance and/or operating leases for goods and services. On termination or expiry of the lease term these entities may have an obligation to acquire assets from the lessor or comply with make good provisions. In the majority of arrangements, a provision has been recognised on the balance sheet. In some arrangements, it has not been possible to estimate the amount of any eventual payment in relation to these obligations.

### **Non-quantifiable contingent assets**

#### **Industry**

##### **Wireless local area network**

The Commonwealth Scientific and Industrial Research Organisation (CSIRO) is currently involved in several legal proceedings related to a family of wireless local area network (WLAN) patents which it owns and has licensed broadly. The proceedings are additional to similar proceedings settled by CSIRO in 2009 and 2012. Two actions in the USA involve claims and counterclaims related to patent damages, infringement, patent validity, and related matters. The first of those cases to proceed to trial was heard in February 2014. A damages award of USD \$16 million plus interest was made. However, the damages award is expected to be appealed by the defendant Cisco. A trial is set for July 2015 in the other of those two US cases. In August 2013 a further proceeding was filed in Germany seeking damages for patent infringement, and the defendant Nokia has filed a so-called “nullity” proceeding, claiming that CSIRO’s German patent is invalid. If successful in these actions, CSIRO expects to receive significant revenue which would exceed the associated legal cost. At this stage, the revenue and costs are considered unquantifiable.

#### **Treasury**

##### **HIH Claims Support Scheme (HCSS)**

As an insured creditor in the liquidation of the HIH Group, the Australian Government is entitled to payments arising from the HCSS’s position in the Proof of Debt of respective HIH companies. Treasury has received payments from the HIH Estate during 2013-14, however, the timing and amount of future payments are unknown and will depend on the outcome of the estimation process and the completion of the liquidation of the HIH Group.

##### **International Monetary Fund (IMF)**

Since 1986, the IMF has used its burden sharing mechanism to make up for the loss of income from unpaid interest charges on the loans of debtor members and to accumulate precautionary balances in a Special Contingent Account to protect the IMF against losses arising from the failure of a member to repay its overdue principal



obligations. The mechanism works by providing for additions to the rate of charge on IMF loans and deductions to the rate of remuneration for creditor members such as Australia. Resources collected from individual members under the burden sharing mechanism are refundable to them as arrears cases are resolved, or as may be decided by the IMF. Thus, resources collected for unpaid charges are refunded when these charges are eventually settled. Likewise, precautionary balances held in the Special Contingent Account would be distributed back to members in proportion to their cumulative contributions when there are no overdue charges or principal balances. The IMF could also decide to make an early distribution. As there is considerable and inherent uncertainty around the timing and amounts of burden sharing to be refunded to Australia this contingent asset cannot be reliably measured and as such is recorded as an unquantifiable contingent asset.

## **Various**

### **Claims and legal action**

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

## **Non-quantifiable contingent liabilities considered remote**

### **Agriculture**

#### **Compensation claims arising from equine influenza outbreak**

The Australian Government may become liable for compensation should it be found negligent in relation to the outbreak of equine influenza in 2007. Proceedings have commenced in the Federal Court of Australia by Maurice Blackburn Lawyers with Attwood Marshall Lawyers who represent a closed class of 586 applicants claiming damages as a result of the 2007 equine influenza outbreak. No final quantum of damages sought can be calculated.

#### **Emergency pest and disease response agreements**

National emergency response arrangements for animal, plant and environmental pest and disease outbreaks are largely funded through cost sharing agreements between Australian governments and, where relevant, agricultural industry bodies. Under the terms of the agreements, the Australian Government is typically liable for 50 per cent of total government funding to respond to a disease or pest outbreak. Limited funding is provided in the forward estimates for the Australian Government's contribution under emergency response agreements with States and Territories. This funding is unlikely to be sufficient to meet the unquantifiable costs of a major outbreak or large scale emergency response exercise. The Australian Government may be expected to contribute bilaterally in situations where an incursion is not covered by a cost sharing agreement or where the relevant industry body is not party to an agreement. The Australian Government may also provide financial assistance to an industry party by funding its initial share of the response. These contributions may subsequently be recovered from the industry over a 10-year period, usually by a levy.

## Research and development

The Australian Government encourages expenditure on research and development to increase the competitiveness and sustainability of industries within Australia. Under several Acts, the Commonwealth provides contributions to a number of nominated entities responsible for undertaking research and development activities in respect of portfolio industries. These contributions are typically made on a matching basis.

At 30 June 2014, the Commonwealth had a maximum potential liability in respect of matching payments of approximately \$401 million (30 June 2013: \$347 million). However, the Commonwealth's actual future liability is contingent on a combination of several currently indeterminate independent factors which are beyond the control of both the department and the recipient entities, in particular the future annual levels of levy collections and determined gross values of production. The likelihood of meeting the eligibility requirements and the amount of future payments is uncertain. Hence, this liability is considered to be both contingent and remote.

## Communications

### Termination of the funding agreement with OPEL

Following the termination of its agreement with OPEL Network Pty Ltd (OPEL) under the Broadband Connect Programme, the Commonwealth made provision towards costs incurred by OPEL in producing its Implementation Plan. OPEL was wound up on 13 March 2009. Proceedings were commenced in the NSW Federal Court by the OPEL Liquidators and Optus on 5 September 2013 in respect of the termination of the funding agreement (including a claim relating to the costs for the preparation of the Implementation Plan).

## Defence

### Guarantees, indemnities and undertakings

The Australian Government, through the Department of Defence and the Defence Materiel Organisation, carries an extensive range of guarantees, indemnities and undertakings, normally of a short-term nature, relating to business, training activities and other arrangements involving contracts, agreements and other Defence activities. Indemnities issued cover potential losses or damages for which the Australian Government would not be liable without the indemnity.

## Infrastructure and Regional Development

### Tripartite Deeds relating to the sale of core regulated airports

The tripartite deeds between the Australian Government, the airport lessee company and financiers amend the airport (head) leases to provide for limited step-in-rights for financiers in circumstances where the Australian Government terminates the head lease to enable the financiers to correct the circumstances that triggered such a termination event. The tripartite deeds may require the Australian Government to pay financiers compensation as a result of its termination of the (head) lease. The

Australian Government's contingent liabilities are considered to be unquantifiable and remote.

## Treasury

### Foreign currency denominated loans

The Australian Government has indemnified agents of foreign currency denominated loans issued by the Australian Government outside Australia against any loss, liability, costs, claims, charges, expenses, actions, or demands due to any misrepresentation by the Australian Government and any breach of warranties. The Australian Government is not aware of any event that has occurred that may trigger action under the indemnities.

### Treasury bonds

In the extremely unlikely event of default by a borrower of Treasury bonds under the securities lending facility, the AOFM would be in a position to sell the securities pledged by the borrower to offset the increased liability to the government. As at 30 June 2014 there were no open transactions under the AOFM's securities lending facility.

## Various

### Officers' and directors' indemnities

From time to time, the Australian Government has provided warranties, undertakings and indemnities (indemnities) to directors, committee members, advisors 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. Indemnities (a number of which are considered remote but have been included for completeness) have been issued in relation to:

- Former Directors of the Australian Submarine Corporation Pty Ltd (ASC) with indemnities in relation to three matters: for any claim against them as a result of complying with the ASC's obligations under the Process Agreement between the Electric Boat Corporation (EBC), the Australian Government and the ASC; for any claim against them as a result of complying with the ASC's obligations under the Service Level Agreement between the ASC, the Department of Defence, EBC and Electric Boat Australia; and for any claims and legal costs arising from the Directors acting in accordance with the Board's tasks and responsibilities, as defined under the indemnity.
- Directors, officers and employees of ADI Limited for claims and legal costs associated with assistance related to the sale of the Australian Government's shares in the company. The Australian Government has provided an indemnity to ADI Limited for uninsured losses relating to specific heads of claims.

## *Notes to the financial statements*

- The board members of the Moorebank Intermodal Company Limited (MIC) to protect them against civil claims relating to their employment and conduct as directors. The indemnities apply to the period of appointment as board members of the company. Until the indemnity agreements are varied or brought to an end, they will remain as contingent and unquantifiable liabilities.
- Deeds of Indemnity for members of the Future Fund Board of Guardians (Board members). The indemnities are intended to cover liabilities in excess of the insurance policies of the Future Fund Board and its subsidiary entities. The indemnity is financially limited, in broad terms, to the value of the funds under management by the Future Fund Board of Guardians.
- The Directors of the Commonwealth Superannuation Corporation. The Governance of *Australian Government Superannuation Schemes Act 2011* (the Governance Act) provides for specific immunities for activities undertaken in good faith by Directors and delegates of the board of the Commonwealth Superannuation Corporation (CSC), provided these activities relate to the performance of their functions.

### Claims and legal actions

At any time various Australian Government entities are subject to claims and legal actions which are pending court or other processes.

### Guarantees, indemnities and undertakings

A range of guarantees, indemnities and undertakings have been provided by Australian Government entities in relation to various matters. Some of these guarantees, indemnities and undertakings are unlimited. A range of guarantees, indemnities and undertakings have been issued in relation to:

#### Transactional banking services

- The Australian Government has indemnified the Reserve Bank of Australia and contracted private sector banks against loss and damage arising from error or fraud by the entity, or transactions made by the bank with the authority of the entity.

#### Property remediation – Defence and other sites

- 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.
- Defence has made financial provision for the possible costs involved in restoring, decontaminating and decommissioning Defence sites in Australia where a legal or constructive obligation has arisen. For those decontaminating and decommissioning Defence sites for which there is no legal or constructive obligation, the potential costs have not been assessed and are unquantifiable.

- On 4 September 2008, a 150 year lease for Googong Dam was signed between the Australian Government and the Australian Capital Territory (ACT) Government. The Australian Government is liable to pay just terms compensation if the terms of the lease are breached by introducing new legislation or changing the *Canberra Water Supply (Googong Dam) Act 1974* in a way that impacts on the rights of the ACT. The lease includes a requirement for the Australian Government to undertake rectification of easements or any defects in title in relation to Googong Dam, and remediation of any contamination it may have caused to the site. It also gives an indemnity in relation to acts or omissions by the Australian Government.

**Non-quantifiable contingent assets considered remote**

Various

Claims and legal action

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

**Note 37: Financial instruments**

Details of the significant accounting policies, key definitions, and methods adopted, including criteria for recognition and the basis for measurement in respect of each class of financial asset and financial liability are disclosed in Note 1.

**(a) Categories of financial instruments**

	General Government		Australian Government	
	2014 \$m	2013 \$m	2014 \$m	2013 \$m
<b>Financial assets</b>				
Loans and receivables	32,286	18,686	109,816	70,444
Financial assets at fair value through profit or loss	167,573	152,423	202,612	183,320
Held to maturity	3,502	3,081	4,179	3,105
Available for sale	46,305	34,950	11,810	12,099
<b>Carrying amount of financial assets</b>	<b>249,666</b>	<b>209,140</b>	<b>328,417</b>	<b>268,968</b>
<b>Financial liabilities</b>				
Financial liabilities at fair value through profit or loss	353,499	291,883	351,223	294,598
Other financial liabilities	26,464	25,718	126,925	96,901
<b>Carrying amount of financial liabilities</b>	<b>379,963</b>	<b>317,601</b>	<b>478,148</b>	<b>391,499</b>

Financial assets at amortised cost that has been calculated using a valuation method

Certain financial assets categorised as 'loans and receivables' and measured at amortised cost were initially measured at fair value using a valuation method as a quoted price was not observable. These include:

- the general government sector's investment in the IMF quota is classified as 'available for sale' but is measured at cost as fair value cannot be reliably measured due to its unique nature. The investment in the IMF quota was valued at \$5,306 million at 30 June 2014 (2013: \$5,247 million); and

- the Guarantee Scheme for Large Deposits and Wholesale Funding and the Guarantee of State and Territory Borrowing contractual fee receivable represents the requirement under AASB 139 *Financial Instruments: Recognition and Measurement for the Australian Government* to recognise up front, its entitlements under the financial guarantee contract to revenue received or receivable from authorised deposit taking institutions over the contracted guarantee period. Conversely, the Australian Government is required to recognise a corresponding initial liability for its contractual obligation to provide a guarantee service over the period covered by each guarantee contract (analogous to unearned income). The contractual fee receivable for the Guarantee Scheme for Large Deposits and Wholesale Funding and the Guarantee of State and Territory Borrowing was valued at \$23 million (2013: \$337 million) and \$113 million (2013: \$199 million) respectively. The corresponding service obligation liability is valued at the same amounts.

#### Concessional loans

The fair values of Australian Government and general government sector financial assets and liabilities approximate their carrying amounts as reported in the consolidated financial statements, with the exception of the subsequent measurement of concessional loans categorised as 'loans and receivables' under AASB 139 *Financial Instruments: Recognition and Measurement*.

On recognition, the fair values for those concessional loans categorised as 'loans and receivables' were determined using the methods described below:

- Advances and loans reported by the Department of Industry are obtained by reference to market prices that employ observable market transactions.
- Loans to State and Territory governments, including those reported by the Australian Office of Financial Management and the Department of Finance, are recognised at amortised cost. These transactions are not traded and, especially for those with the longest term to maturity, a direct market benchmark to underpin fair value measurement does not exist. Data on Treasury bonds are used in estimating fair value.

Subsequent to recognition, the above loans are carried at amortised cost which may differ to an updated fair value. Other concessional loans, including student loans provided under the Higher Education Loans Programme and home and business loans provided by Indigenous Business Australia (IBA), have been categorised as 'held at fair value through the profit and loss'. As such, the carrying amount of these loans is updated each reporting period to reflect fair value.

The following table details the nominal value of material concessional loans as well as the unexpired discount.

*Notes to the financial statements*

**Concessional loans**

	2014		2013	
	Nominal value	Unexpired discount	Nominal value	Unexpired discount
	\$m	\$m	\$m	\$m
HECS / HELP Loans	35,311	(1,949)	30,135	(1,415)
Other student loans	2,181	(11)	2,206	(54)
State and Territory Governments - AOFM	2,374	(267)	2,463	(285)
IBA Home and Business Loans	943	(286)	863	(268)
Australia Indonesia Partnership for Reconstruction and Development	462	(341)	422	(321)
Industry	286	(159)	294	(160)
ACT Housing	155	(55)	162	(59)
Returned service personnel	74	(24)	77	(24)
Aged care facilities	245	(22)	176	(45)
Natural Disaster Relief and Recovery Arrangements	138	(11)	34	(3)
Pension Bonus Scheme	32	(2)	31	(2)
Northern Territory and Norfolk Island	86	(8)	74	(9)
<b>Total</b>	<b>42,287</b>	<b>(3,137)</b>	<b>36,937</b>	<b>(2,645)</b>



**(b) Net income, expense and other economic flows from financial assets**

	General Government		Australian Government	
	2014 \$m	2013 \$m	2014 \$m	2013 \$m
<b>Loans and receivables</b>				
Interest income	493	504	1,157	1,663
Net gain/(loss) on disposal	-	-	-	-
Net foreign exchange gain/(loss)	3	(4)	11	12
Write-down and impairment	(381)	(300)	(384)	(301)
Interest expenses	(29)	(30)	(29)	(30)
<b>Net gain/(loss) loans and receivables</b>	<b>86</b>	<b>170</b>	<b>755</b>	<b>1,344</b>
<b>Available for sale</b>				
Interest income	1	1	25	1
Dividend income	1,727	1,032	38	63
Net gain/(loss) on disposal	-	-	-	-
Net foreign exchange gain/(loss)	(366)	671	(366)	671
Write-down and impairment	(150)	-	(150)	-
Other gains	-	-	-	-
Fair value movements taken direct to equity	7,679	1,435	282	(612)
<b>Net gain/(loss) available for sale</b>	<b>8,891</b>	<b>3,139</b>	<b>(171)</b>	<b>123</b>
<b>Held for trading</b>				
Interest income (including interest from swaps)	-	-	353	168
Dividends	-	2,047	-	2,047
Net gain/(loss) on disposal	-	-	11	(293)
Net foreign exchange gain/(loss)	-	-	-	-
Write-down and impairment	-	-	-	-
<b>Net gain/(loss) held for trading</b>	<b>-</b>	<b>2,047</b>	<b>364</b>	<b>1,922</b>
<b>Designated as held at fair value through profit and loss</b>				
Interest income (including interest from swaps)	3,318	3,334	3,440	3,046
Net gain/(loss) on disposal	6,111	(129)	6,137	(145)
Net foreign exchange gain/(loss)	41	(2,496)	189	1,455
Write-down and impairment	(7)	-	(7)	-
Interest expenses	(296)	(105)	(296)	(105)
Other gains	3,040	11,983	3,175	12,156
<b>Net gain/(loss) held at fair value through profit and loss</b>	<b>12,207</b>	<b>12,587</b>	<b>12,638</b>	<b>16,407</b>
<b>Held to maturity</b>				
Interest income	139	152	176	151
Net gain/(loss) on disposal	-	-	(3)	-
Net foreign exchange gain/(loss)	-	-	-	-
Write-down and impairment	-	-	-	-
<b>Net gain/(loss) held to maturity</b>	<b>139</b>	<b>152</b>	<b>173</b>	<b>151</b>

**(c) Net income, expense and other economic flows from financial liabilities**

	General Government		Australian Government	
	2014 \$m	2013 \$m	2014 \$m	2013 \$m
<b>Held at fair value through profit and loss</b>				
Interest expenses (including interest on swaps)	14,008	12,902	13,869	12,734
Net foreign exchange gain/(loss)	-	-	-	-
Other gains	(3,687)	10,623	(3,687)	10,638
<b>Net gain/(loss) held at fair value through profit and loss</b>	<b>10,321</b>	<b>23,525</b>	<b>10,182</b>	<b>23,372</b>
<b>Other financial liabilities</b>				
Interest expenses	1,341	1,042	2,057	1,265
Net foreign exchange gain/(loss)	(80)	(454)	(79)	(459)
<b>Net gain/(loss) other financial liabilities</b>	<b>1,261</b>	<b>588</b>	<b>1,978</b>	<b>806</b>

**(d) Financial management objectives and market risk**

Market risk represents the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk comprises currency risk, interest rate risk and other price risks. The management of market risk by Australian Government entities is governed by the FMA Act, the *Commonwealth Authorities and Companies Act 1997* (CAC Act) and, for some entities such as the RBA, specific legislation.

The CFS are prepared for the total Australian Government public sector, which comprises all Australian Government controlled entities in the three sectors of government – the general government sector (GGS), the public non-financial corporations sector (PNFC) and the public financial corporations sector (PFC). The three sectors of government hold financial instruments for different purposes and with different market risk exposures. Consequently, the following discussion of financial management objectives and market risk has been disaggregated by sector. Where material, the discussion includes a sensitivity analysis for each type of market risk exposure, showing the effect on the net operating balance and net worth from reasonably possible changes in market risk at 30 June 2014.

Generally, in applying the sensitivity analysis as at 30 June 2014, a default rate of 11.5 per cent has been applied for the sensitivity analysis of foreign exchange risk and 60 to 140 basis points for the sensitivity analysis of interest rate risk. These standard rates were considered to be ‘reasonably possible’ fluctuations based on historical research conducted. However, for certain financial instruments, different sensitivity rates have been used based on the relevant agencies’ assessment of changes in risk variables that were considered ‘reasonably possible’ at the reporting date with regard to the nature of the underlying financial instrument.

## **General government sector**

As detailed in Note 1, the GGS provides public services that are mainly non-market in nature, and for the collective consumption of the community, or involve the transfer or redistribution of income. GGS entities hold financial instruments as part of their operations or for public policy purposes.

## **Management of interest rate risk in the general government sector**

### **General risk management**

Agencies subject to the FMA Act are required to draw down administered and departmental monies on an 'as-needed' basis. As a general principle, FMA Act agencies cannot invest public monies except as delegated under section 39 of the FMA Act or authorised by legislation. Companies and authorities subject to the CAC Act are also restricted in how they can invest monies that are surplus to operational requirements. As a general principle, surplus money may only be placed on deposit with a bank or invested directly in securities issued or guaranteed by the Australian Government, a State or a Territory, unless an exemption is approved by the Finance Minister. Financial assets held by the majority of GGS entities are non-interest bearing, including trade receivables, or have fixed interest and do not fluctuate due to changes in the market interest rate.

The Treasurer has delegated investment powers to the Australian Office of Financial Management (AOFM). The AOFM's functions give it primary responsibility for ensuring that the Australian Government has sufficient cash to meet its needs. As at 30 June 2014, AOFM had deposited \$27.1 billion in term deposits with the RBA on behalf of the Australian Government (2013: \$20.1 billion). As these investments are internal to the Australian Government reporting entity, they are not reported in the Consolidated Financial Statements, except at the General Government level.

### **Investment funds**

The Australian Government is meeting its commitment to Australia's future by drawing on previous and future surpluses to invest in several funds. As at 30 June 2014, the following significant funds were in operation:

- Future Fund;
- Building Australia Fund (BAF);
- Education Investment Fund (EIF); and
- Health and Hospitals Fund (HHF).

The Future Fund was established by the *Future Fund Act 2006* to finance the Australian Government's unfunded public sector superannuation liability. The Future Fund Board of Guardians is responsible for the investment decisions of the Fund under an

Notes to the financial statements

Investment Mandate issued by the Australian Government. The Investment Mandate requires the Board to maximise returns above a benchmark rate whilst taking acceptable but not excessive risk. The benchmark rate has been set at CPI + 4.5 per cent to 5.5 per cent per annum over the long term. Section 39 of the FMA Act does not apply to investments of the fund.

As at 30 June 2014, the Future Fund's exposure to interest rates consisted of \$11,037 million in floating interest rate securities (2013: \$11,367 million) and \$17,387 million in fixed interest rate securities (2013: \$16,301 million).

The following table demonstrates the impact on the net operating balance and net worth of a 60 basis points (2013: 120 basis points) change in Future Fund interest rate bond yields with all other variables held constant.

	Change in risk variable	Effect on		Effect on	
		Operating balance	Net worth	Operating balance	Net worth
		2014 \$m	2014 \$m	2013 \$m	2013 \$m
Interest rate risk					
Asset portfolios (including derivatives)	<b>+60bp</b>	<b>(308)</b>	<b>(308)</b>	n/a	n/a
	<b>-60bp</b>	<b>328</b>	<b>328</b>	n/a	n/a
	<b>+120bp</b>	<b>n/a</b>	<b>n/a</b>	(443)	(443)
	<b>-120bp</b>	<b>n/a</b>	<b>n/a</b>	493	493

Exchange traded interest rate futures are used by the Future Fund's investment managers to manage the exposure to interest rates and to ensure it remains within approved limits. At 30 June 2014, the notional value of open futures contracts and swaps totalled \$8,982 million (2013: \$1,796 million).

The Building Australia Fund (BAF), Education Investment Fund (EIF) and Health and Hospitals Fund (HHF) were established by the *Nation-building Funds Act 2008* on 1 January 2009 and their investments are also managed by the Future Fund Board of Guardians.

The Funds were established to provide financing sources to meet the Australian Government's commitment to Australia's future by investment in critical areas of infrastructure. The objective of each Fund is as follows:

- BAF – to make payments in relation to the creation or development of transport, communications, eligible national broadband network matters, energy and water infrastructure;
- EIF – to make payments in relation to the creation or development of higher education infrastructure, vocational education and training infrastructure, eligible education and research infrastructure; and

- HHF – to make payments in relation to the creation or development of health infrastructure.

Collectively, the three Funds are known as the Nation-building Funds (NBF).

The Future Fund Board of Guardians is responsible for the investment decisions of the NBF under Investment Mandates issued by the Australian Government. The Investment Mandates are to adopt a benchmark return on each Fund of the Australian three month bank bill swap rate + 0.3 per cent per annum, calculated on a rolling 12 month basis (net of fees). In targeting this benchmark return, the Board should invest in such a way as to minimise the probability of capital losses over a 12 month horizon.

As at 30 June 2014, the NBF's exposure to interest rates consisted of \$6,045 million in floating interest rate securities (2013: \$7,619 million) and \$3,557 million in fixed interest rate securities (2013: \$4,043 million). The following table demonstrates the impact on the net operating balance and net worth of a 60 basis point change in NBF interest rate bond yields with all other variables held constant (2013: 120 basis points).

	Effect on		Effect on		
	Change in risk variable	Operating balance	Net worth	Operating balance	Net worth
Interest rate risk		2014	2014	2013	2013
		\$m	\$m	\$m	\$m
Building Australia Fund	+60 bp	14	14	n/a	n/a
	-60 bp	(13)	(13)	n/a	n/a
	+120 bp	n/a	n/a	35	35
	-120 bp	n/a	n/a	(33)	(33)
Education Investment Fund	+60 bp	16	16	n/a	n/a
	-60 bp	(15)	(15)	n/a	n/a
	+120 bp	n/a	n/a	29	29
	-120 bp	n/a	n/a	(27)	(27)
Health and Hospitals Fund	+60 bp	10	10	n/a	n/a
	-60 bp	(10)	(10)	n/a	n/a
	+120 bp	n/a	n/a	20	20
	-120 bp	n/a	n/a	(18)	(18)

The NBF had open positions in exchange traded interest rate futures contracts as at 30 June 2014. The notional value of NBF investments in 'sell international interest rate futures contracts' was negative \$1,323 million (2013: negative \$315 million).

The GGS also holds certain financial assets and liabilities for public policy purposes.

## Debt management

The majority of GGS entities are prohibited from borrowing. The AOFM is responsible for the borrowing activities of the GGS and for overall debt management.

For many years, debt issuance by the Australian Government was undertaken solely with the objective of maintaining the Treasury bond and Treasury bond futures markets, as successive budget surpluses removed the need to borrow to fund the Budget. The forecast Budget outlook changed in the *Updated Economic and Fiscal Outlook* published on 3 February 2009 and the objective of issuance changed to funding the Budget.

As a means of diversifying its funding sources, in September 2009, the Australian Government resumed issuance of Treasury indexed bonds.

The main types of market risk the Australian Government's debt portfolio is exposed to is domestic interest rate risk and domestic inflation risk. Moreover, by generally issuing/buying and holding to maturity, the market risk most relevant to the debt portfolio is the risk of fluctuations to future interest cash flows and principal amounts arising from changes in interest rates and inflation. In market value terms, as at 30 June 2014, the AOFM had issued \$351,275 million in Commonwealth Government securities (2013: \$285,741 million).

The following table provides a sensitivity analysis of interest rate risk in relation to the debt portfolio. Inflation risk is covered under the management of other price risk in another part of this note.

At 1 July 2013, if domestic interest rates had experienced an immediate 100 basis point parallel upward (downward) movement across the yield curve, and if that change were to persist for the 12 months to 30 June 2014, with all other variables held constant, the effect on the net operating balance and net worth position would be as follows:

	Change in risk variable	Effect on		Effect on	
		Operating balance	Net worth	Operating balance	Net worth
		2014	2014	2013	2013
		\$m	\$m	\$m	\$m
Treasury bonds	+100 bp	(230)	(230)	(185)	(185)
	-100 bp	269	269	214	214
Treasury notes	+100 bp	(40)	(40)	(49)	(49)
	-100 bp	40	40	49	49

Until 30 June 2008, the AOFM used interest rate swaps to reduce the accrual cost of its borrowing by exchanging fixed rate exposure for floating rate exposure. It stopped doing this because interest rate structures had reduced the potential savings. The

portfolio of interest rate swaps has now been wound down. The cost and risk of the debt portfolio is now managed through debt issuance and investment activities.

### Residential mortgage-backed securities

In September 2008, the Australian Government announced that it would invest up to \$4 billion in residential mortgage-backed securities (RMBS) to support competition in the Australian residential mortgage market. In October 2008, this initiative was extended to \$8 billion, of which a maximum of \$4 billion may be in RMBS issued by authorised deposit taking institutions. In November 2009, the Australian Government extended the programme by up to an additional \$8 billion subject to market conditions. An additional objective of the extended programme was to provide support for lending to small business through participating lenders agreeing to direct some of the proceeds received for lending to small business. In December 2010, the Australian Government announced an extension to the programme by up to an additional \$4 billion (bringing the programme to \$20 billion). On behalf of the Australian Government, the AOFM acquired a total of \$15,462 million of AAA (or equivalent) rated RMBS up to 30 June 2014. The amount held as at 30 June was \$6,016 million (in principal terms).

Interest earned on RMBS comprises a floating interest rate (set against the one-month Bank Bill Swap (BBSW) reference rate) plus a fixed margin set at the time each investment is acquired. The following table demonstrates the impact on the net operating balance and net worth of a 100 basis point change to the one-month BBSW rate with all other variables held constant.

	Change in risk variable	Effect on		Effect on	
		Operating balance	Net worth	Operating balance	Net worth
Interest rate risk		2014	2014	2013	2013
		\$m	\$m	\$m	\$m
Residential mortgage backed securities	+100 bp	51	51	79	79
	-100 bp	(51)	(51)	(79)	(79)

### Concessional loans held for policy purposes

The Australian Government has entered into a number of concessional loan arrangements for policy purposes. These include student loans provided under the Higher Education Loan Programme (2014: \$25,147 million, 2013: \$21,593 million) and loans to State and Territory Governments under previous Commonwealth-State financing arrangements (2014: \$2,106 million, 2013: \$2,177 million).

Consistent with the requirements of AASB 139 *Financial Instruments: Recognition and Measurement*, these loans are initially valued at fair value applying market interest rates.

*Notes to the financial statements*

Student loans have been designated as 'held at fair value through the profit and loss'. Changes in market interest rates will impact on the fair value of these loans but will have no impact on the future cash flows or principal amounts at maturity. Loans to State and Territory Governments are of a fixed interest credit foncier nature. Other concessional loans have been designated as 'loans and receivables' and have no exposure to interest rate risk.

**Investments, multi-lateral grants and contributions payable**

The Department of Foreign Affairs and Trade administers material financial assets on behalf of the Australian Government. The Australian Government is the holder of these financial instruments, with the issuers being partner foreign governments and multi-lateral aid organisations including the Asian Development Fund (ADF) and the International Development Association (IDA). Financial instruments are recognised on a trade date basis. The fair value of the non-monetary 'available for sale' debt instrument at 30 June 2014 was \$1,545 million (2013: \$1,494 million).

Grants are made to a number of international, United Nations (UN) and Australian Government organisations. The fair value of multi-lateral grants payable at 30 June 2014 was \$590 million (2013: \$492 million) and multilateral contributions payable was \$1,069 million at 30 June 2014 (2013: \$898 million).

The following table demonstrates the impact of a 60 basis points (2013: 140 basis points) interest rate change in the calculation of the above instruments on the net operating balance and net worth. The interest rate risk reflects the impact on assets and liabilities of movements, either alone or in combination, of the following interest rate variables: i) United States dollar (USD) 30-year Government bond rate; ii) the currency risk, liquidity risk and sovereign risk premiums (obtained via independent professional advice) as they apply to the borrowing countries party to the IDA and ADF; and, iii) the ten-year Australian government bond rate.

	Change in risk variable	Effect on		Effect on	
		Operating balance	Net worth	Operating balance	Net worth
		2014	2014	2013	2013
		\$m	\$m	\$m	\$m
International Development Association and Asia Development Fund	<b>+60 bp</b>	<b>101</b>	<b>101</b>	n/a	n/a
	<b>-60 bp</b>	<b>(104)</b>	<b>(104)</b>	n/a	n/a
	<b>+140 bp</b>	<b>n/a</b>	<b>n/a</b>	64	64
	<b>-140 bp</b>	<b>n/a</b>	<b>n/a</b>	(84)	(84)



### Management of currency risk in the general government sector

Entities in the GGS 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. This means that GGS entities are not permitted to undertake any form of hedging. Rather than allowing GGS 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.

The Future Fund undertakes certain transactions denominated in foreign currencies, hence it is exposed to the effects of exchange rate fluctuations. Exchange rate exposures are managed utilising forward foreign exchange contracts. The Fund's exposure in Australian equivalents to foreign currency risk at 30 June 2014 totalled \$67,945 million (2013: \$62,992 million). After adjusting for forward exchange contracts, the Fund's net exposure at 30 June 2014 amounted to \$44,841 million (2013: \$22,912 million). The Fund's exposures are in multiple currencies, primarily USD, Euro, Yen and the UK Pound.

The following table demonstrates the impact on the net operating balance and net worth, of a 11.5 per cent movement (2013: 15.7 per cent movement) in the value of the Australian dollar (AUD) relative to the basket of actual net exposures.

Currency risk	Change in risk variable	Effect on		Effect on	
		Operating balance	Net worth	Operating balance	Net worth
		2014	2014	2013	2013
		\$m	\$m	\$m	\$m
Investments	+11.5%	5,460	5,460	n/a	n/a
	-11.5%	(5,411)	(5,411)	n/a	n/a
	+15.7%	n/a	n/a	4,572	4,572
	-15.7%	n/a	n/a	(4,245)	(4,245)

The Australian Government is also exposed to currency risk from debt denominated in foreign currency. The Australian Government's policy is to reduce its foreign currency denominated debt to zero. Only a small residual amount of such debt remains in the debt portfolio administered by the AOFM and the AOFM seeks to repurchase this debt when available on acceptable terms. The exposure to foreign exchange risk on general government debt is not material.

The Australian Government holds several financial instruments as part of its membership of the International Monetary Fund (IMF) and its investment in

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international financial institutions and multilateral aid organisations. These financial instruments include the:

- IMF (financial assets), comprising the current value in AUD of Australia's subscription to the IMF (2014: \$5,306 million, 2013: \$5,247 million);
- investment in international financial institutions, including the European Bank for Reconstruction and Development, the International Bank for Reconstruction and Development, the International Finance Corporation, the Asian Development Bank and the Multilateral Investment Guarantee Agency (2014: \$857 million, 2013: \$758 million);
- subscription based membership rights (not control) held by the Australian Government in accordance with the articles of association for the International Development Association and the Asian Development Fund, which are recognised at fair value (2014: \$1,545 million, 2013: \$1,493 million);
- promissory notes (financial liability) issued to the IMF and international financial institutions (2014: \$3,904 million, 2013: \$3,167 million). The promissory notes are non-interest bearing and relate to the undrawn paid-in capital subscriptions; and
- the special drawing rights (SDR) allocation liability which reflects the current value in AUD of the Treasury's liability to repay to the IMF Australia's cumulative allocations of SDRs (2014: \$5,054 million, 2013: \$4,998 million).

The Australian Government is exposed to foreign currency denominated in USD, EUR and SDR on the above financial instruments. The following table demonstrates the impact on the net operating balance and net worth of a 12 per cent (2013: 15.7 per cent) movement in the relative value of the AUD relative for financial instruments associated with the IMF and international financial institutions and a 11.5 per cent (2013: 15 per cent) movement for financial instruments associated with multi-lateral aid organisations.

	Effect on		Effect on		
	Change in risk variable	Operating balance	Net worth	Operating balance	Net worth
		2014 \$m	2014 \$m	2013 \$m	2013 \$m
<b>Currency risk</b>					
Loans	+ 11.5%	(0)	(0)	n/a	n/a
	- 11.5%	0	0	n/a	n/a
	+ 15.0%	n/a	n/a	(195)	(195)
	- 15.0%	n/a	n/a	264	264
International Monetary Fund	+ 12.0%	(547)	(547)	n/a	n/a
	- 12.0%	689	689	n/a	n/a
	+ 15.7%	n/a	n/a	(712)	(712)
	- 15.7%	n/a	n/a	977	977

### Management of other price risk in the general government sector

The Australian Government is exposed to equity price risks arising from equity investments, primarily through Future Fund investments. 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 Future Fund holds all of its equities at fair value through profit or loss.

As at 30 June 2014, the Future Fund's exposure to equity price risk consisted of \$11,190 million in domestic listed equities and listed managed investment schemes (2013: \$10,670 million) and \$27,225 million in international listed equities and listed management schemes (2013: \$22,213 million).

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 Future Fund.

	Change in risk variable	Effect on		Effect on	
		Operating balance	Net worth	Operating balance	Net worth
		2014	2014	2013	2013
		\$m	\$m	\$m	\$m
<b>Other price risk</b>					
<b>Assets</b>					
Australian equities	+ 20%	3,045	3,045	3,190	3,190
	- 20%	(2,986)	(2,986)	(3,157)	(3,157)
International equities	+ 15%	8,327	8,327	6,758	6,758
	- 15%	(7,916)	(7,916)	(6,437)	(6,437)

The Future Fund's exposure to other price risks was assessed as being not material.

The Fund had open positions in exchange traded equity futures contracts and equity option contracts as at 30 June 2014. 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 Fund's approved limits. The notional value of the open contracts and their fair market value are set out below.

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Equity price risk	Notional value	Fair market value	Notional value	Fair market value
	2014 \$m	2014 \$m	2013 \$m	2013 \$m
Buy domestic equity futures contracts	100	-	160	-
Sell domestic equity futures contracts	(497)	-	(456)	(1)
Buy international equity futures	7,115	37	5,998	(41)
Equity index swap agreements	-	-	-	-
Equity index swap agreements	-	-	1	-
Exchange traded international volatility index call options	1	-	-	-
Over the counter domestic equity index put options	(8)	-	(49)	3
Over the counter domestic equity index call options	214	16	137	14
Over the counter international equity index put options	(420)	26	(479)	29
Over the counter international equity index call options	2,815	350	1,246	165
Exchange traded warrants	95	159	138	190
<b>Total</b>	<b>9,415</b>	<b>588</b>	<b>6,696</b>	<b>359</b>

The Australian Government is exposed to cash flow risk on Treasury capital indexed bonds on issue. These instruments expose the Australian Government to cash flow risk on interest payments and the value of principal payable on maturity arising from indexation against the (all groups) Australian consumer price index (CPI). When the CPI increases, debt servicing costs and the principal payable on maturity will also rise (subject to a six-month lag).

At 1 July 2013, if the CPI were to experience an immediate 1 per cent increase/(decrease) and that change were to persist for 12 months to 30 June 2014 with all other variables held constant, the effect on the net operating balance and net worth position for the year ended 30 June 2014 would be as follows:

CPI sensitivity analysis	Change in risk variable	Effect on		Effect on	
		Operating balance	Net worth	Operating balance	Net worth
		2014 \$m	2014 \$m	2013 \$m	2013 \$m
Treasury Capital Indexed Bonds	+1%	(309)	(309)	(280)	(280)
	- 1%	315	315	274	274

### Public financial corporations

As detailed in Note 1, the public financial corporations (PFC) sector comprises the Reserve Bank of Australia (RBA) and other entities that accept demand, time or savings deposits; or have the authority to incur liabilities and acquire financial assets in the market on their own account.

The RBA is Australia's central bank. Its role is set out in the *Reserve Bank Act 1959*. The RBA's main responsibility is monetary policy. In addition to conducting monetary policy, 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. The Export Finance and Insurance Corporation (EFIC) is also involved in lending and borrowing activities with exposures to interest rate and currency risk.

The principal financial instruments held by other entities in the PFC sector comprise cash and short-term money market instruments (including bank bills, negotiable certificates of deposit and commercial paper), debentures and floating rate notes, global property trusts, domestic equity trusts, global equity trusts and domestic listed shares. The market risk associated with reasonably possible movements in interest rates, currency rates and other prices on financial instruments held by these entities is not material to the Consolidated Financial Statements. Consequently, the following market risk disclosures are limited to the market operations of the RBA and EFIC.

### Management of interest rate risk in the public financial corporations sector

The RBA's balance sheet is exposed to considerable interest rate risk because most of its assets are financial assets, such as domestic and foreign securities, which have a fixed income stream. The price of such securities increases when market interest rates decline, while the price of a security will fall if market rates rise. Interest rate risk increases with the maturity of a security because the associated income stream is fixed for a longer period.

The following table demonstrates the effect on profit and net worth of a movement of +/- 100 basis points in interest rates on the RBA's financial asset holdings, given the level, composition and modified duration of the RBA's foreign currency and AUD securities as at 30 June 2014.

	Change in risk variable	Effect on		Effect on	
		Operating balance	Net worth	Operating balance	Net worth
		2014	2014	2013	2013
		\$m	\$m	\$m	\$m
Foreign currency securities	+100 bp	365	365	339	339
	-100 bp	(365)	(365)	(339)	(339)
Australian dollar securities	+100 bp	131	131	140	140
	-100 bp	(131)	(131)	(140)	(140)

As EFIC is also involved in lending and borrowing activities, interest rate risks arise. EFIC uses interest rate swaps, forward rate agreements, cross-currency swaps and futures as the primary methods of reducing exposure to interest rate movements. As at

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30 June 2014, EFIC's net exposure to interest rates consisted of \$25 million in floating interest rate securities (2013: \$25 million) and \$193 million in fixed interest rate securities (2013: \$183 million). As at 30 June 2014, a +/- 60 basis point movement in interest rates was assessed as not having a material impact on the reported balance of the corporation's portfolio.

**Management of currency risk in the public financial corporations sector**

Foreign exchange risk arises from the RBA's foreign currency assets, which are held to support the RBA's operations in the foreign exchange market. The overall level of foreign currency exposure is determined by policy considerations and cannot otherwise be managed to reduce foreign exchange risk. The RBA's net foreign currency exposure as at 30 June 2014 was \$42 billion (2013: \$42 billion). Within the overall exposure and to a limited extent, foreign currency risk can be reduced by holding assets across a diversified portfolio of currencies. The RBA holds foreign reserves in four currencies – the US dollar (52 per cent of net foreign currency holdings), the Euro (35 per cent), the Canadian dollar (5 per cent), the Yen (5 per cent) and Chinese renminbi (3 per cent) – because the markets for these currencies are typically liquid and suitable for investing foreign exchange reserves. The RBA also operates in foreign exchange markets on behalf of its clients, including to assist the Australian Government in meeting foreign currency obligations.

The RBA also undertakes foreign currency swaps to assist its daily domestic market operations. These instruments carry no foreign exchange risk since the exchange rates at which both legs of the transaction are settled are agreed at the time the swap is undertaken.

The following table demonstrates the sensitivity of the RBA's profit and net worth to a movement of +/-10 per cent in the value of the AUD exchange rate as at 30 June.

Currency risk	Change in risk	Effect on		Effect on	
		Operating balance	Net worth	Operating balance	Net worth
		2014	2014	2013	2013
		\$m	\$m	\$m	\$m
Australian dollar exchange rate	+ 10%	(3,849)	(3,849)	(3,764)	(3,764)
	- 10%	4,704	4,704	4,601	4,601

EFIC extends facilities in various currencies, principally in US dollars and Euros. Where the borrowing currency is different from the currency of the assets being funded, cross-currency swaps, or the foreign exchange markets are used to offset the exposure (before provisions). EFIC's exposure in AUD to foreign currency risk at 30 June 2014 totalled \$2,756 million on financial assets and \$2,778 million on financial liabilities giving a net exposure of negative \$22 million (2013: negative \$34 million).

### Management of other price risk in the public financial corporations sector

The PFC sector does not have material exposures (from a whole of government perspective) to equity or other price risks.

### Public non-financial corporations

As detailed in Note 1, the public non-financial corporations (PNFC) sector comprises entities that provide goods and services that are mainly market, non-regulatory, and non-financial in nature, financed mainly through sales to consumers of these goods and services.

These 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.

The market risk associated with reasonably possible movements in interest rates, currency rates and other prices on financial instruments held by PNFC sector entities is not material to the Consolidated Financial Statements.

### (e) 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 recognised financial asset is the carrying amount of those assets as indicated in the consolidated balance sheet. The following table shows the credit quality of financial receivables reported in the Consolidated Financial Statements that are not past due or individually determined as impaired.

Australian Government	2014	2013	2014	2013
	Not Past Due nor Impaired	Not Past Due nor Impaired	Past Due or Impaired	Past Due or Impaired
	\$m	\$m	\$m	\$m
Advances and loans	34,752	29,305	82	769
Goods and services receivable	1,301	1,156	359	547
Other receivables	3,593	4,219	720	2,462
<b>Total</b>	<b>39,646</b>	<b>34,680</b>	<b>1,161</b>	<b>3,778</b>

General Government	2014	2013	2014	2013
	Not Past Due nor Impaired	Not Past Due nor Impaired	Past Due or Impaired	Past Due or Impaired
	\$m	\$m	\$m	\$m
Advances and loans	33,958	28,603	82	769
Goods and services receivable	476	386	193	308
Other receivables	4,416	4,258	720	2,462
<b>Total</b>	<b>38,850</b>	<b>33,247</b>	<b>995</b>	<b>3,539</b>

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The following table shows the ageing of financial receivables that are past due but not impaired for 2014:

Australian Government	0 to 30 days \$m	30 to 60 days \$m	60 to 90 days \$m	over 90 days \$m	Total \$m
Advances and loans	25	22	23	12	82
Goods and services receivable	214	47	20	78	359
Other receivables(a)	37	34	27	622	720
<b>Total</b>	<b>276</b>	<b>103</b>	<b>70</b>	<b>712</b>	<b>1,161</b>

General Government	0 to 30 days \$m	30 to 60 days \$m	60 to 90 days \$m	over 90 days \$m	Total \$m
Advances and loans	25	22	23	12	82
Goods and services receivable	121	22	15	35	193
Other receivables(a)	37	34	27	622	720
<b>Total</b>	<b>182</b>	<b>78</b>	<b>65</b>	<b>669</b>	<b>995</b>

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

The following table shows the ageing of financial receivables that were past due but not impaired for 2013:

Australian Government	0 to 30 days \$m	30 to 60 days \$m	60 to 90 days \$m	over 90 days \$m	Total \$m
Advances and loans	37	17	29	686	769
Goods and services receivable	278	65	35	169	546
Other receivables(a)	1,841	29	12	580	2,463
<b>Total</b>	<b>2,156</b>	<b>111</b>	<b>76</b>	<b>1,435</b>	<b>3,778</b>

General Government	0 to 30 days \$m	30 to 60 days \$m	60 to 90 days \$m	over 90 days \$m	Total \$m
Advances and loans	37	11	(10)	17	56
Goods and services receivable	136	40	22	110	309
Other receivables(a)	1,841	29	12	580	2,463
<b>Total</b>	<b>2,014</b>	<b>80</b>	<b>24</b>	<b>707</b>	<b>2,825</b>

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

Australian Government entities have assessed the risk of default on payment and have allocated the following to an impairment allowance for doubtful debts:

- advances and loans receivable of \$229 million at 30 June 2014 (2013: \$30 million); and
- goods and services and other receivables (including certain statutory receivables other than tax) of \$1,978 million at 30 June 2014 (2013: \$2,538 million).



The majority of Australian Government entities do not have significant exposures to any concentrations of credit risk. Generally, Australian Government entities' exposures are to a large number of customers or highly rated counterparties and their credit risks are very low. Australian Government entities with material concentrations of credit risk include:

- the Export Finance and Insurance Corporation's (EFIC) principal exposure to credit risk arises from the financing and credit facilities extended to clients. These facilities are provided by EFIC on both a commercial basis and on the national interest account. Credit risk exposures on the Commercial Account amounted to \$1,871 million at 30 June 2014 (2013: \$1,716 million) while credit risk exposures on the national interest account amounted to \$867 million (2013: \$758 million);
- the AOFM's financial investments include loans to state and territory Governments, deposits, discount securities and residential mortgage-backed securities (RMBS). The credit quality of the RMBS derives from the underlying quality of the mortgage assets and structural enhancements such as lenders mortgage insurance, liquidity facilities, and the issue of different classes of securities. At the time of acquisition, each RMBS issue must meet a range of eligibility criteria set by the AOFM;
- the Future Fund has a significant exposure to interest bearing securities issued by domestic banks (including domestic subsidiaries of foreign banks);
- for the RBA, credit risk arises from exposure to the issuers of securities that it holds; banks with which the RBA deposits funds and counterparties that are yet to settle transactions. The RBA's credit exposure is low compared with that of most commercial financial institutions because it manages such risks within a highly risk-averse framework; and
- from time to time the Australian Government may have significant exposures to credit risk in relation to major asset sales.

The majority of Australian Government entities do not hold collateral to manage credit risk.

Cash invested by the RBA under repurchase agreements is secured by collateral to a value of between 101 and 127 per cent of the amount invested.

In relation to Indigenous Business Australia's gross credit risk, collateral valued at \$1,370 million is held against home and business loans (2013: \$1,196 million).

Collateral held may include first ranking mortgage over assets financed by EFIC, standby documentary credits, third-party guarantees and recourse to companies and company directors. No collateral has currently been called and held at year end.

### **Loans and advances at fair value through profit or loss**

Student loans under the Higher Education Loan Programme and Student Financial Supplement Scheme have been designated as at fair value through profit or loss as the Australian Government manages these loans and advances on a fair value basis.

Commercial loans and National Interest Account loans managed by the Export Finance Insurance Corporation (EFIC) are designated at fair value through profit or loss. These include export finance loans and rescheduled insurance debts designated at fair value through profit or loss as the designation significantly reduces the accounting mismatch that would otherwise arise from measuring the asset on a different basis from derivatives that have been entered into to hedge the transactions. Business and home loans managed by Indigenous Business Australia (IBA) are designated at fair value through profit or loss as these loans are managed on a fair value basis with risk management focussed on monitoring, measuring and reporting the impact of interest rate changes.

The maximum exposure to credit risk arises from the potential default of a debtor. This amount is equal to the carrying amount of the receivables net of impairment losses.

#### **(f) Liquidity risk**

Liquidity risk is the risk that the Australian Government will not be able to meet its obligations as they fall due. The following tables disclose the undiscounted value of the contractual maturities of financial liabilities as at the end of the financial year, including estimated future interest payments.

The Australian Government has sufficient access to funds to meet its liabilities as they fall due. At 30 June 2014, the Australian Government reported \$295,785 million in current assets compared to current liabilities of \$98,789 million (as reported in the balance sheet). Moreover, the Australian Government is positioned to address liquidity risk through existing revenue sources, including the power to tax, and its capacity to roll over existing debt.

The following table illustrates the contractual maturities for financial liabilities:

**Liquidity risk 2014<sup>(a)(b)</sup>**

Australian Government 2014	On Demand \$m	1 Year or Less \$m	1 to 5 Years \$m	More than 5 Years \$m	Total \$m
Suppliers	978	4,734	151	28	5,891
Subsidies payable	-	121	-	-	121
Grants liability	21	2,005	-	5,054	7,080
Other payables	347	2,323	713	32	3,415
Overdrafts	-	-	-	-	-
Deposits	12,178	11,820	-	-	23,998
Government securities	-	32,584	132,570	181,465	346,619
Loans	-	1,159	1,927	5,818	8,904
Leases	-	584	1,859	10,531	12,974
Other interest bearing liabilities	5	7,927	1,724	2,089	11,745
Provisions	-	-	-	-	-
Australian currency on issue	-	-	-	60,778	60,778
<b>Total Financial Liabilities</b>	<b>13,529</b>	<b>63,257</b>	<b>138,944</b>	<b>265,795</b>	<b>481,525</b>

General Government 2014	On Demand \$m	1 Year or Less \$m	1 to 5 Years \$m	More than 5 Years \$m	Total \$m
Suppliers	55	3,912	124	2	4,093
Subsidies payable	-	121	-	-	121
Grants liability	21	2,052	-	5,054	7,127
Other payables	327	1,165	71	32	1,595
Overdrafts	-	-	-	-	-
Deposits	211	-	-	-	211
Government securities	-	32,584	137,236	181,465	351,285
Loans	-	7	157	3,779	3,943
Leases	-	190	665	2,337	3,192
Other interest bearing liabilities	5	419	986	395	1,805
Provisions	-	-	-	-	-
Australian currency on issue	-	-	-	-	-
<b>Total Financial Liabilities</b>	<b>619</b>	<b>40,450</b>	<b>139,239</b>	<b>193,064</b>	<b>373,372</b>

(a) The amounts disclosed in the tables above are the undiscounted values and may not align to the amounts disclosed in the balance sheet.

(b) The Future Fund has entered into forward exchange contracts to manage exposure to currency risk. These contracts are settled on a gross basis with the maturities of inflows and outflows as follows:

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**Liquidity risk 2013<sup>(a)(b)</sup>**

Australian Government 2013	On Demand \$m	1 Year or Less \$m	1 to 5 Years \$m	More than 5 Years \$m	Total \$m
Suppliers	988	4,255	152	1	5,396
Subsidies payable	-	185	-	-	185
Grants liability	24	2,459	355	37	2,875
Other payables	898	3,260	1,928	1,670	7,756
Overdrafts	-	-	-	-	-
Deposits	2,189	3,936	-	-	6,125
Government securities	-	28,743	114,002	141,420	284,165
Loans	65	1,599	1,928	4,247	7,839
Leases	-	307	960	4,653	5,920
Other interest bearing liabilities	194	9,933	597	5,011	15,735
Provisions	-	-	-	-	-
Australian currency on issue	56,943	-	-	-	56,943
<b>Total Financial Liabilities</b>	<b>61,301</b>	<b>54,677</b>	<b>119,922</b>	<b>157,039</b>	<b>392,939</b>

General Government 2013	On Demand \$m	1 Year or Less \$m	1 to 5 Years \$m	More than 5 Years \$m	Total \$m
Suppliers	117	3,732	124	-	3,973
Subsidies payable	-	185	-	-	185
Grants liability	24	2,459	355	37	2,875
Other payables	22	2,388	1,046	135	3,591
Overdrafts	-	-	-	-	-
Deposits	182	-	-	-	182
Government securities	-	28,743	115,586	141,420	285,749
Loans	50	4	324	2,993	3,371
Leases	-	162	502	1,394	2,058
Other interest bearing liabilities	6	4,700	570	5,008	10,284
Provisions	-	-	-	-	-
Australian currency on issue	-	-	-	-	-
<b>Total Financial Liabilities</b>	<b>401</b>	<b>42,373</b>	<b>118,507</b>	<b>150,987</b>	<b>312,268</b>

(a) The amounts disclosed in the tables above are the undiscounted values and may not align to the amounts disclosed in the balance sheet.

(b) The Future Fund has entered into forward exchange contracts to manage exposure to currency risk. These contracts are settled on a gross basis with the maturities of inflows and outflows as follows:

<b>Gross settled derivatives</b>	On Demand 2014	1 Year or Less 2014	1 to 5 Years 2014	More than 5 Years 2014	Total 2014
(Inflow)	-	(17,868)	(127)	(41)	(18,036)
Outflow	-	18,163	134	41	18,337
<b>Total</b>	-	295	6	0	302

<b>Gross settled derivatives</b>	On Demand 2013	1 Year or Less 2013	1 to 5 Years 2013	More than 5 Years 2013	Total 2013
(Inflow)	-	(54,307)	(6,087)	(29)	(60,423)
Outflow	-	58,115	6,626	30	64,770
<b>Total</b>	-	3,808	539	1	4,347

### Note 38: Defined benefit superannuation plans

Within the reporting entity, various Australian Government entities sponsor defined benefit superannuation plans. The following are the plans that are covered in this note:

- Commonwealth Superannuation Scheme (CSS);
- Public Sector Scheme (PSS);
- Parliamentary Contributory Superannuation Scheme (PCSS);
- Defence Force Retirement and Death Benefits Scheme (DFRDB);
- Military Superannuation Benefits Scheme (MSBS); and
- the following defined benefit superannuation schemes have been disclosed under the heading 'Other'.

<b>Scheme title</b>	<b>Responsible entities</b>
AvSuper	Airservices Australia
Australia Post Superannuation Scheme (APSS)	Australia Post Corporation
State Authorities Superannuation Scheme (SASS), State Superannuation Scheme (SSS), State Authorities Non-contributory Superannuation Scheme (SASCS)	Australian Rail Track Corporation
Australian Submarine Corporation Superannuation Fund (ASCSF)	Australian Submarine Corporation
North American and London, Dublin and New Delhi pension schemes (other)	Department of Foreign Affairs and Trade
Reserve Bank of Australia Officers' Superannuation Fund (OSF) and UK Pension Scheme (UKPS)	Reserve Bank of Australia
The Judges' Pension Scheme (JPS), Governor-General Pension Scheme and Federal Circuit Court Judges Death and Disability Scheme (FCCJDDS) (these are included in other in the tables)	Department of Finance

## *Notes to the financial statements*

This note includes information on the statutory and whole of government schemes listed above, including the Judges' Pension Scheme (JPS), Governor General Pension Scheme and Federal Circuit Court Judges Death and Disability Scheme (FCCJDDS) listed under 'Other'. Information on the other schemes sponsored by individual Australian Government entities can be found in the annual report of the responsible entities.

### **(a) Accounting policies**

The Australian Government recognises actuarial gains or losses immediately in Other Comprehensive Income in the year in which they occur. Net interest on the net defined benefit liability is recognised in profit and loss; the return on plan assets excluding the amount included in interest income is recognised in Other Comprehensive Income as part of re-measurements. Sensitivity analysis is provided on significant changes in assumptions that are reasonably possible.

### **(b) Scheme information**

#### **Commonwealth Superannuation Scheme**

##### *Scheme information and regulatory framework*

The Commonwealth Superannuation Scheme (CSS) is a scheme for Commonwealth civilian employees and was established under the *Superannuation Act 1976*. The CSS was open to new members from 1 July 1976 to 30 June 1990.

The CSS 1976 Scheme is a regulated public sector scheme and must comply with the *Superannuation Industry (Supervision) Act 1993* which governs the superannuation industry and provides the framework within which superannuation plans operate.

Prior to 1976, the superannuation of Australian Government public servants was covered by the *Superannuation Act 1922*. There are no longer any members contributing under this Act. However, some pensioners remain entitled to benefits under this Act and the liabilities in respect of these members are included in the CSS liability.

The 1922 scheme is an exempt public sector superannuation scheme for the purposes of the *Superannuation Industry (Supervision) Act 1993*.

##### *Benefits provided*

The CSS 1976 Scheme is a partially unfunded defined benefit scheme that provides benefits on resignation, retirement, involuntary retirement, invalidity and death (to eligible spouses / children). Retirement benefits include an unfunded employer financed lifetime indexed pension based on the member's age at retirement, years of contributory service and final superannuation salary. The member's basic contributions, employer productivity contributions and interest can be taken as a lump sum or an additional non-indexed lifetime pension.

Members of the scheme who resign before age 55 can claim a preserved resignation benefit on or after reaching that age. This benefit is commonly known as the 54/11 benefit. In this case, the unfunded employer financed lifetime, 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.

Indexed pensions are indexed twice yearly (January and July) in line with changes in the Consumer Price Index.

The 1922 Scheme is an unfunded defined benefit scheme that still provides the payments of pensions, deferred benefit entitlements and any reversionary pensions to surviving eligible spouses and/or children on the death of a member.

#### *Funding arrangements*

Funded contributions generally comprise basic member contributions and employer productivity (up to 3 per cent) contributions. These are invested in the CSS Fund. Members can also choose to make no basic member contributions. In most cases, when a member's benefit becomes payable, monies held in the CSS Fund in respect of the member are paid to Consolidated Revenue with the member then having their benefit paid to them from Consolidated Revenue.

#### *Governance*

The Scheme's Trustee, Commonwealth Superannuation Corporation (CSC), was established under the *Governance of Australian Government Superannuation Schemes Act 2011*. CSC is responsible for:

- administration of the Scheme;
- management and investment of the Scheme assets;
- compliance with superannuation and taxation laws and other applicable laws; and
- compliance with relevant legislation including the *Governance of Australian Government Schemes Act 2011* and the *Commonwealth Authorities and Companies Act 1997*.

ComSuper is the legislated provider of administration services for the Scheme under the *ComSuper Act 2011*. ComSuper is subject to any reasonable direction from CSC and is required to comply, where possible, with any policies, guidelines and standards regarding administration services set by CSC.

The prudential regulator, the Australian Prudential Regulation Authority (APRA), licenses and supervises the regulated CSS 1976 Scheme.

## **Public Sector Superannuation Scheme**

### *Scheme information and regulatory framework*

The Public Sector Superannuation Scheme (PSS) is a scheme for Commonwealth civilian employees and was established under the *Superannuation Act 1990* and Trust Deed made under the Act. The PSS was open to new members from 1 July 1990 to 30 June 2005.

The PSS is a regulated public sector scheme and must comply with the *Superannuation Industry (Supervision) Act 1993* and regulations under that Act which govern the superannuation industry and provides the framework within which superannuation plans operate.

### *Benefits provided*

The PSS is a partially funded defined benefit scheme that provides benefits on resignation, retirement, involuntary retirement, invalidity and death (to eligible spouse/children).

On retirement a lump sum benefit is payable. This lump sum is calculated based on the member's length of contributory membership, their rate of member contribution and Final Average Salary (average of a member's superannuation salary on their last three birthdays). Generally this lump sum comprises a funded component (as described above) and an unfunded component.

Where a member resigns before age 55, generally the member's lump sum benefit at that time is crystallised with the funded component of the benefit accumulating with interest and the unfunded component accumulating with changes in the CPI, until the benefit becomes payable.

Members can convert 50 per cent or more of their lump sum to a lifetime indexed pension based on the member's age.

Indexed pensions are indexed twice yearly (January and July) in line with changes in the Consumer Price Index.

### *Funding arrangements*

Funded contributions generally comprise basic member contributions and employer productivity (up to 3 per cent) contributions. These are invested in the PSS Fund and accumulate with interest. Members can choose to make no contributions. When a member's benefit becomes payable, monies held in the PSS Fund in respect of the member are paid to Consolidated Revenue with the member then having their benefit paid to them from Consolidated Revenue.



## **Governance**

The Governance arrangements are consistent with those applied for the CSS.

## **Parliamentary Contributory Superannuation Scheme**

### *Scheme information and regulatory framework*

The Parliamentary Contributory Superannuation Scheme (PCSS) is a scheme for Federal parliamentarians and was established under the *Parliamentary Contributory Superannuation Act 1948* (the Act). The scheme was closed to new and returning members on 9 October 2004.

The PCSS scheme is an exempt superannuation scheme for the purposes of the *Superannuation Industry (Supervision) Act 1993*.

### *Benefits provided*

The PCSS is an unfunded defined benefit scheme that is governed by the rules set out in the Act.

The main benefit provided by the PCSS is a lifetime pension, which is payable where a retiring member has sufficient parliamentary service to meet the pension qualification period set out in the Act. A PCSS member who qualifies for a pension can also elect to convert up to half of their benefit to a lump sum. Lump sum benefits are payable to PCSS members who do not have sufficient parliamentary service to qualify for a lifetime pension.

Benefits are funded by the Australian Government at the time they become payable. The amount of the benefit payable is determined under the Act and is dependent on the member's length of parliamentary service and the additional offices they have held.

Pension benefits are expressed as a percentage of the superannuation salary applicable for the PCSS and are indexed by movements in that superannuation salary.

The Act also provides for the payment of reversionary pensions to surviving eligible spouses and/or children on the death of a member.

### *Funding arrangements*

Members of the scheme are required to contribute towards the cost of their benefit during their term of parliamentary service. Contributions are a set percentage of the superannuation salary applicable for the purposes of the PCSS. In most cases, when a member's benefit becomes payable, monies are paid to them from Consolidated Revenue.

## **Governance**

The Act establishes the Parliamentary Retiring Allowances Trust, which exercises certain statutory discretions in the Act in relation to the PCSS. The Trust comprises five trustees, being two Senators, two members of the House of Representatives and the Finance Minister. The Assistant Secretary, Funds and Superannuation, Governance and Public Management within the Department of Finance, acts as adviser to the Trust.

The Finance Secretary also has certain powers under the Act in relation to Administration of the PCSS.

## **Defence Force Retirement and Death Benefits Scheme**

### *Scheme information and regulatory framework*

The Defence Force Retirement and Death Benefit Scheme (DFRDB) is a scheme that provides superannuation for Australian Defence Force (ADF) members who became contributors on or after 1 October 1972, and for members who were contributors to the former Defence Force Retirement Benefits Scheme (DFRB) on 30 September 1972 and were compulsorily transferred to the DFRDB Scheme.

The scheme is an exempt public sector superannuation scheme for the purposes of the *Superannuation Industry (Supervision) Act 1993*.

### *Benefits provided*

The DFRDB is an unfunded defined benefit superannuation scheme where benefit entitlements do not depend on investment fund earnings, except for members who have an ancillary account in MSBS. It was open to new members until 1 October 1991.

The DFRDB Scheme differs from most other defined benefit superannuation schemes in that retirement age plays only an incidental part in calculating benefit entitlements. Length of service is the primary factor: total full-time contributory service, plus any periods of past service that may have been brought back. Members who retire from the ADF after 20 years of effective service (or after 15 years of service at retirement age for rank) are entitled to a pension based on a percentage of their annual pay on retirement. Members retired from the ADF on invalidity grounds may be entitled to an invalidity pension.

DFRDB Scheme members who have less than 20 years of service but have not reached their compulsory retiring age for rank are entitled to:

- a refund of their contributions, a Superannuation Guarantee amount and a productivity benefit (described below); and
- if applicable, a gratuity based on completed years of service.

Members are entitled to a productivity benefit under the *Defence Force (Superannuation) (Productivity Benefit) Determination* (issued under the *Defence Act 1903*). The amount of this productivity benefit varies according to the circumstances under which an individual member has left the ADF. It is paid at the same time as DFRDB Scheme benefits are paid.

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

#### *Funding arrangements*

When a member's benefit becomes payable, monies are paid to them from Consolidated Revenue.

#### *Governance*

Established by the *Defence Force Retirement and Death Benefits Act 1973* (the DFRDB Act), the Scheme closed to new entrants with the commencement of the Military Superannuation and Benefits Scheme (MSBS) on 1 October 1991.

### **Military Superannuation and Benefits Scheme**

#### *Scheme information and regulatory framework*

The Military Superannuation and Benefits Scheme (MSBS) is a scheme operated for the purpose of providing members of the Australian Defence Force (and their dependants or beneficiaries) with lump sum and pension benefits.

Established by the *Military Superannuation and Benefits Act 1991*, the MSBS scheme commenced on 1 October 1991 after the closure for new entrants in DFRDB.

#### *Benefits provided*

The MSBS is a partly funded scheme that provides benefits upon retirement, termination of service, death and disablement.

The benefits payable from the Scheme comprise a lump sum of accumulated member contributions and a defined benefit financed by the Australian Government.

The scheme is calculated on the basis of the member's final average salary and length of service. The defined benefit may be taken as a lump sum or as a pension or as a combination of lump sum and pension. The defined benefit consists of a funded component (the accumulated value of the 3 per cent of salary contributions made to the Fund by the Australian Government) and an unfunded component (the balance of the defined benefit).

***Funding arrangements***

Funded contributions generally comprise basic member contributions, including amounts notionally carried over from the DFRDB, plus earnings on these amounts, and employer productivity (of 3 per cent) contributions. These are invested in the MSBS Fund. The cost of the unfunded employer component is met from Consolidated Revenue when benefits fall due.

***Governance***

The Governance arrangements are consistent with those applied for the CSS.

**Governor-General Pension Scheme (G-GPS)**

***Scheme information and regulatory framework***

The Governor-General pension scheme was established under the *Governor-General Act 1974* (the Act).

The scheme is an exempt public sector superannuation scheme for the purposes of the *Superannuation Industry (Supervision) Act 1993*.

***Benefits provided***

The scheme is an unfunded defined benefit scheme that is governed by the rules set out in the Act. The scheme remains open to new members.

The scheme provides a lifetime retirement allowance of 60 per cent of the salary of the Chief Justice of the High Court of Australia. There is no minimum qualification period for the payment of a retiring allowance and the allowance is not dependent upon length of service.

The retirement allowance is funded by the Australian Government at the time it becomes payable and is indexed by movements in the salary of the Chief Justice of the High Court of Australia.

The Act also provides for the payment of a reversionary allowance to a surviving eligible spouse on the death of a Governor-General or former Governor-General.

***Funding arrangements***

Governors-General are not required to contribute towards the cost of their benefit during their term of appointment. Benefits are funded from Consolidated Revenue.

***Governance***

The Finance Secretary has certain powers under the Act in relation to administration of the scheme.

## **Judges' Pensions Scheme (JPS)**

### *Scheme information and regulatory framework*

The Judges' Pensions Scheme is a scheme for Federal Judges (excluding Federal Circuit Court Judges) and was established under the *Judges' Pensions Act 1968* (the Act). The scheme remains open to new members.

The scheme is an exempt superannuation scheme for the purposes of the *Superannuation Industry (Supervision) Act 1993*.

### *Benefits provided*

The Judges' Pensions Scheme is an unfunded defined benefit scheme that is governed by the rules set out in the Act. The scheme remains open to new members.

The main benefit provided by the Judges' Pensions Scheme is a lifetime pension of 60 per cent of judicial salary, which is payable where a Judge has 10 or more years of service and is over age 60. The Act provides for a part pension (prorated based on length of service) where a Judge who has less than 10 years service, but not less than 6 years service, must retire due to reaching the maximum retiring age in the Constitution (age 70).

A lump sum benefit, based on minimum Superannuation Guarantee, is payable to a Judge who does not have sufficient judicial service to qualify for a lifetime pension.

Benefits under the Judges Pensions Scheme' are funded by the Australian Government at the time they become payable. Pensions are indexed by movements in judicial salaries.

The Act also provides for the payment of reversionary pensions to surviving eligible spouses and/or children on the death of a Judge or former Judge.

### *Funding arrangements*

Judges are not required to contribute towards the cost of their benefit during their term of appointment. Benefits are funded from Consolidated Revenue.

### *Governance*

The Finance Minister exercises certain discretions under the Act. The Finance Secretary also has certain powers under the Act in relation to administration of the scheme. Day-to-day administration of the scheme is undertaken by Finance.

## **Federal Circuit Court Judges Death and Invalidation Scheme (FCCJDIS)**

### *Scheme information and regulatory framework*

The *Federal Circuit Court of Australia Act 1999* (the Act) provides for employer funded superannuation contributions to a superannuation fund of the Judge's choice, as well as access to a statutory death and disability scheme (FCCJDDS). It is an exempt public sector superannuation scheme for the purposes of the *Superannuation Industry (Supervision) Act 1993*.

### *Benefits provided*

The death and disability scheme is unfunded and is governed by the rules set out in the Act. It is accessible to new Federal Circuit Court Judges.

The disability benefit provides a retired disabled Federal Circuit Court Judge with a pension of 60 per cent of the salary the Judge would have received if they had not retired, and is payable until the earlier of the Judge attaining age 70, or his/her death. In addition, the Judge continues to receive employer superannuation contributions in respect of this pension until they reach age 65.

### *Funding arrangements*

Judges are not required to contribute towards the cost of these benefits. Benefits are funded from Consolidated Revenue in the event they become payable.

### *Governance*

The Finance Minister exercises certain discretions under the Act in respect of the death and disability scheme.

**Note 38: Defined benefit superannuation plans (continued)**  
**(c) Reconciliation of the present value of the defined benefit obligation**

Scheme	CSS		PSS		PCSS		DFRDB		MSBS		Other	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Present value of defined benefit obligations at beginning of the year	(72,738)	(82,912)	(67,777)	(79,943)	(1,060)	(1,282)	(32,399)	(39,311)	(40,665)	(50,491)	(9,803)	(10,081)
Current service cost	(264)	(352)	(2,385)	(3,453)	(12)	(18)	(148)	(195)	(2,155)	(3,128)	(375)	(419)
Productivity contributions	(26)	(28)	(210)	(210)	-	-	-	-	-	-	-	-
Obligation required	-	-	-	-	-	-	-	-	-	-	-	-
Interest cost	(3,045)	(2,513)	(2,888)	(2,461)	(45)	(39)	(1,366)	(1,198)	(1,790)	(1,611)	(381)	(316)
Contributions by scheme participants	(75)	(77)	(575)	(570)	-	-	-	-	(257)	(252)	(122)	(68)
Actuarial gains/(losses) arising from changes in demographic assumptions	-	-	(3,560)	-	-	-	(81)	74	(810)	(180)	(2)	(1)
Actuarial gains/(losses) arising from changes in financial assumptions	(1,704)	11,422	(3,135)	19,073	(32)	224	(957)	6,667	(2,181)	14,572	(27)	848
Actuarial gains/(losses) arising from liability experience	(1,315)	(1,964)	(965)	(1,325)	28	20	-	-	-	-	12	12
Actuarial gains/(losses) arising from other assumptions	-	-	-	-	-	-	-	-	-	-	46	(63)
Benefits paid(a)	3,841	3,683	1,250	1,081	45	35	1,525	1,564	496	425	513	485
Taxes, premiums and expenses paid	4	4	32	32	-	-	-	-	-	-	-	-
Transfers in	-	-	-	-	-	-	-	-	-	-	-	2
Net disposal cost	-	-	-	-	-	-	-	-	-	-	-	-
Past service cost	-	-	-	-	-	-	(7,797)	-	-	-	-	-
Curtailment gain	-	-	-	-	-	-	-	-	-	-	5	-
Other	-	-	-	-	-	-	(56)	-	-	-	(110)	(197)
Exchange rate gains/(losses)	-	-	-	-	-	-	-	-	-	-	(2)	(6)
Experience adjustments on benefits	-	-	-	-	-	-	-	-	-	-	-	-
Effects of changes in benefit actuarial assumptions	-	-	-	-	-	-	-	-	-	-	-	-
Present value of defined benefit obligations at end of the year	(75,322)	(72,738)	(80,213)	(67,777)	(1,076)	(1,060)	(41,279)	(32,399)	(47,362)	(40,665)	(10,246)	(9,803)

(a) Benefits paid includes estimate of net benefits paid and productivity payments.

**Note 38: Defined benefit superannuation plans (continued)**  
**(d) Reconciliation of the fair value of scheme assets**

Scheme	CSS		PSS		PCSS		DFRDB		MSBS		Other	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Fair value of scheme assets at beginning of the year	3,895	3,911	13,856	12,107	-	-	-	-	4,888	4,012	8,271	7,676
Changes in fair value of scheme assets:												
Plan asset acquired	-	-	-	-	-	-	-	-	-	-	-	-
Interest income	156	115	594	378	-	-	-	-	217	129	310	235
Actual return on scheme assets less interest income	230	284	972	1,207	-	-	-	-	353	423	453	484
Actuarial gains/(losses)	-	-	-	-	-	-	-	-	-	-	2	2
Net appropriation from CRF	3,229	3,168	426	497	45	36	1,525	1,564	545	497	257	300
Employer contributions												
productivity contribution	26	28	210	210	-	-	-	-	257	252	-	-
Contributions by scheme participants	75	77	575	570	-	-	-	-	-	-	122	69
Net changes in fair value of scheme assets	-	-	-	-	-	-	-	-	-	-	-	-
Foreign currency exchange rate changes	-	-	-	-	-	-	-	-	-	-	5	3
	7,610	7,582	16,633	14,969	45	36	1,525	1,564	6,260	5,313	9,419	8,769
Less												
Benefits paid(a)	3,841	3,683	1,250	1,081	45	36	-	-	496	425	514	485
Taxes, premiums and expenses paid	4	4	32	32	-	-	1,525	1,564	-	-	13	13
	3,845	3,687	1,282	1,113	45	36	1,525	1,564	496	425	527	498
Fair value of scheme assets at end of the year	3,765	3,895	15,351	13,856	-	-	-	-	5,764	4,888	8,892	8,271

(a) Benefits paid includes estimate of net benefits paid and productivity payments.



The net superannuation asset for defined benefit plans included as 'other' comprises the following amounts by scheme:

<b>Net superannuation assets</b>	2014 \$m	2013 \$m
AvSuper	33	-
Australia Post Superannuation Scheme	48	-
State Authorities Superannuation Scheme, State Superannuation Scheme and State Authorities Non contributory Superannuation Scheme	-	-
Judges' Pension Scheme	-	-
Officers' Superannuation Fund	-	-
UK Pension Scheme	-	-
Australian Submarine Corporation Superannuation Fund	-	-
Other	-	-
	<b>81</b>	<b>-</b>
<b>Net superannuation liability</b>		
AvSuper	-	28
Australia Post Superannuation Scheme	-	2
State Authorities Superannuation Scheme, State Superannuation Scheme and State Authorities Non contributory Superannuation Scheme	12	9
Judges' Pension Scheme	1,148	1,108
Officers' Superannuation Fund	197	321
UK Pension Scheme	-	-
Australian Submarine Corporation Superannuation Fund	-	-
Other	81	70
	<b>1,438</b>	<b>1,538</b>
<b>Net 'Other' superannuation liability</b>	<b>(1,357)</b>	<b>(1,538)</b>

**Note 38: Defined benefit superannuation plans (continued)**  
**(e) Total expense recognised in income statement.**

Scheme	CSS		PSS		PCSS		DFRDB		MSBS		Other	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Current service cost	264	352	2,385	3,453	12	18	148	195	2,155	3,128	375	419
Net interest	2,889	2,398	2,294	2,083	45	39	1,366	1,198	1,573	1,482	71	81
Past service cost	-	-	-	-	-	-	7,797	-	-	-	-	-
Superannuation (expense)/income	3,153	2,750	4,679	5,536	57	57	9,311	1,393	3,728	4,610	446	500

**(f) The fair value of scheme assets is represented by**

Scheme	CSS		PSS		PCSS		DFRDB		MSBS		Other	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Australian equity	25.9%	24.8%	25.9%	24.8%	-	-	-	-	-	-	14.5%	11.6%
Market Neutral Hedge Funds	9.6%	8.8%	9.6%	8.8%	-	-	-	-	-	-	0.0%	-
Long short equities	-	-	-	-	-	-	-	-	-	-	0.0%	-
International equity	29.5%	34.3%	29.5%	34.3%	-	-	-	-	-	-	1.2%	0.7%
Fixed income	-	-	-	-	-	-	-	-	-	-	1.5%	1.2%
Property	12.0%	12.4%	12.0%	12.4%	-	-	-	-	-	-	15.2%	17.2%
Private equity	-	-	-	-	-	-	-	-	-	-	8.1%	8.6%
Hedge funds	-	-	-	-	-	-	-	-	-	-	-	-
Infrastructure	-	-	-	-	-	-	-	-	-	-	-	-
Credit	6.6%	6.8%	6.6%	6.8%	-	-	-	-	-	-	-	-
International bonds	5.1%	4.8%	5.1%	4.8%	-	-	-	-	-	-	14.4%	13.0%
Pooled Superannuation Trust	-	0.0%	-	0.0%	-	-	-	-	99.9%	99.9%	-	-
Sundry debtors	-	0.0%	-	0.0%	-	-	-	-	0.1%	0.1%	-	-
Other	5.2%	6.3%	5.2%	6.3%	-	-	-	-	-0.5%	-0.5%	28.3%	29.5%
Cash	6.1%	1.8%	6.1%	1.8%	-	-	-	-	0.5%	0.5%	16.8%	18.1%

**Note 38: Defined benefit superannuation plans (continued)**  
**(g) Principal actuarial assumptions at the balance sheet date**

Scheme	CSS		PSS		PCSS		DFRDB		MSBS		Other	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Discount rate (active members)	4.1%	4.3%	4.1%	4.3%	4.1%	4.3%	4.1%	4.3%	4.1%	4.3%	3.7%	4.2%
Discount rate (pensioners)	4.1%	4.3%	4.1%	4.3%	4.1%	4.3%	-	-	-	-	-	-
Expected rate of return on plan assets (active members)	-	7.0%	-	7.0%	-	-	-	-	4.1%	4.3%	2.1%	2.0%
Expected salary increase rate	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	2.4%	0.9%
Expected pension increase rate (a)	2.5%	2.5%	2.5%	2.5%	2.5%	4.0%	4.0%	2.5%	4.0%	2.5%	4.3%	3.7%

(a) Not relevant for all schemes. See notes below for more information.

**Note 38: Defined benefit superannuation plans (continued)**

**(g) Principal actuarial assumptions at the balance sheet date (continued)**

CSS, PSS and PCSS

Assumptions have been made regarding rates of retirement, death (for active, preserved and pension members), mortality improvements, invalidity, resignation, retrenchment, retention and take up rates of pensions in the scheme. Assumptions have also been made for the ages of spouses and rates of member contributions. These assumptions are consistent to those used within the Long Term Cost Report as at 30 June 2011, except for two assumptions within the PSS scheme, which have been updated to reflect recent experiences. The two new assumptions are:

- PSS members contribution rate increased by 0.6 per cent of salary to 6.6 per cent as at 30 June 2014, compared to 6 per cent of salary assumed within the 2011 LTCR; and
- Pension take-up rate has been updated from 70 per cent to 80 per cent.

Certain estimates and approximations were required to determine the year end assets and liabilities in the timeframe required.

The fair value of scheme assets at 30 June 2014 was estimated using the audited fair value of scheme assets at 30 June 2013 with cash flow items provided by the scheme manager, other than benefits paid. An estimate of the actual rate of investment return earned by the scheme during the year to 30 June 2014 was used in determining the fair value of scheme assets.

In relation to the defined benefit obligation, member data as at 30 June 2013 was projected forward allowing for decrements in accordance with the Long Term Cost Report 2011. The data was then adjusted for the difference between the actual benefit payments and those based on the assumed decrements. Salaries at 30 June 2014 were estimated using an assumption derived from the APS remuneration survey. Members' account balances were increased to be consistent with the level of exit rates prevailing at 30 June 2014.

G-GPS, JPS and FCCJDDS

The demographic assumptions used as at 30 June 2014 liability are those used for the last actuarial review of the schemes as at 30 June 2011.

Benefits payable are paid from Consolidated Revenue on a pay as you go basis. Thus contributions made equal benefits paid.

## DFRDB and MSBS

The Australian Government Actuary (AGA) estimates the unfunded provisions and expected future cash flows as at 30 June each year. The AGA completes a full review of the unfunded liabilities (Long Term Cost Report) every three years. This was last completed in 2011.

## Other

The actuarial assumptions associated with these defined superannuation plans, such as rates of retirement, death, and the expected rate of return, were based on the recommendations of the scheme's actuary.

**(h) Employer contributions**

The following table shows the expected contributions for 2015 by scheme:

Scheme	2015 \$m
Commonwealth Superannuation Scheme	23
Public Sector Superannuation Scheme	208
Parliamentary Contributory Superannuation Scheme	41
Defence Force Retirement and Death Benefits Scheme	1,560
Military Superannuation Benefits Scheme	599
Other schemes	234

Where applicable, the surplus or deficit between accrued benefits and the net market value of plan assets as determined in accordance with AAS 25 *Financial Reporting by Superannuation Plans* is disclosed in the annual financial reports for each scheme.

The accrued benefits for the DFRDB, DFRB and PCSS have no assets to meet benefit payments. Instead, the plans are financed by the Australian Government at the time benefits become payable.

The following table provides a breakdown of the superannuation provision reported in Note 31 by scheme as at the reporting date.

Scheme	General Government		Australian Government	
	2014 \$m	2013 \$m	2014 \$m	2013 \$m
Commonwealth Superannuation Scheme	71,556	68,843	71,556	68,843
Public Sector Superannuation Scheme	64,862	53,921	64,862	53,921
Parliamentary Contributory Superannuation Scheme	1,076	1,060	1,076	1,060
Defence Force Retirement and Death Benefits Scheme	41,279	32,399	41,279	32,399
Military Superannuation Benefits Scheme	41,598	35,777	41,598	35,777
Other schemes	1,203	1,153	1,351	1,532
Other superannuation liabilities	173	159	226	162
	<b>221,747</b>	193,313	<b>221,948</b>	193,693

*Notes to the financial statements*

The following table provides a breakdown of defined benefit plan assets by scheme (that is where the sponsored scheme has a surplus of assets over defined benefit obligations) as reported in Note 19.

Scheme	General Government		Australian Government	
	2014 \$m	2013 \$m	2014 \$m	2013 \$m
Commonwealth Superannuation Scheme	-	-	-	-
Public Sector Superannuation Scheme	-	-	-	-
Parliamentary Contributory Superannuation Scheme	-	-	-	-
Defence Force Retirement and Death Benefits Scheme	-	-	-	-
Military Superannuation Benefits Scheme	-	-	-	-
Other schemes	-	-	81	-
	-	-	<b>81</b>	-

**(i) Sensitivity Analysis for Significant actuarial assumptions**

The defined benefit obligation as at 30 June 2014 under several scenarios is presented below. The defined benefit obligation has been recalculated by changing the assumptions as outlined below, whilst retaining all other assumptions.

**Sensitivity Analysis**

	Impact on defined benefit obligation		
	Change in assumption	Increase in \$m	Decrease in \$m
CSS			
Salary growth rate	1.0%	261	(237)
Pension growth rate	0.5%	4,119	(3,477)
Discount rate	0.6%	(4,935)	5,574
PSS			
Salary growth rate	1.0%	5,582	(4,827)
Pension growth rate	0.5%	5,559	(4,550)
Discount rate	0.6%	(8,925)	10,647
PCSS			
Salary growth rate	1.0%	176	(142)
Discount rate	0.6%	(92)	106
DFRDB and MSBS			
Salary growth rate	1.0%	9,006	(7,734)
Discount rate	0.6%	(9,817)	10,998
Rate of CPI increase	0.5%	4,506	(4,685)
Other			
Pensioner mortality rate (a)	5.0%	(0)	0
Salary growth rate (b)	1.0%	350	(297)
Salary growth rate (c)	0.5%	58	(54)
Salary growth rate (d)	0.3%	13	(13)
Pension growth rate (e)	1.0%	1	(1)
Pension growth rate (f)	0.3%	40	(38)
Discount rate (g)	1.0%	(251)	296
Discount rate (h)	0.6%	(92)	105
Discount rate (i)	0.5%	(61)	66
Discount rate (j)	0.3%	(53)	57
Rate of CPI (k)	0.5%	7	(6)

(a) Relates to the percentage change in pensioner mortality rate applied to SASS, SSS and SANCS.

(b) Relates to the percentage change in salary growth rate applied to G-GPS, JPS, FCCJDDS and APSS.

(c) Relates to the percentage change in salary growth rate applied to AvSuper, SASS, SSS, SANCS, ASCSF and other.

(d) Relates to the percentage change in salary growth rate applied to OSF.

(e) Relates to the percentage change in pension growth rate applied to JPS.

(f) Relates to the percentage change in pension growth rate applied to OSF.

(g) Relates to the percentage change in discount rate applied to APSS, SASS, SSS and SANCS.

(h) Relates to the percentage change in discount rate applied to JPS.

(i) Relates to the percentage change in discount rate applied to AvSuper, ASCSF and other.

(j) Relates to the percentage change in discount rate applied to OSF.

(k) Relates to the percentage change in CPI applied to SASS, SSS, SANCS, ASCSF and other.

**(j) Maturity profile of defined benefit obligation**

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

Scheme	Weighted average duration of the defined benefit obligation in years
Commonwealth Superannuation Scheme 1976	12.1 years
Commonwealth Superannuation Scheme 1922	7.3 years
Public Sector Superannuation Scheme	21 years
Parliamentary Contributory Superannuation Scheme	16 years
Defence Force Retirement and Death Benefits Scheme	17.3 years
Defence Forces Retirement Benefits Scheme	9.4 years
Military Superannuation Benefits Scheme	33.8 years
Other	
AvSuper	11 years
Australia Post Superannuation Scheme	6.9 years
State Authorities Superannuation Scheme	12.3 years
State Superannuation Scheme	12.3 years
State Authorities Non contributory Superannuation Scheme	12.3 years
Australian Submarine Corporation Superannuation Fund	8 years
North American and London, Dublin and New Delhi pension schemes	N/A
Reserve Bank of Australia Officers' Superannuation Fund	18 years
UK Pension Scheme	N/A
Judges' Pension Scheme	14.3 years
Governor General Pension Scheme	10.1 years
Federal Circuit Court Judges Death and Disability Scheme	3.3 years

N/A - Weighted average information not available

**Note 39: 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'. Adjusting events refer to conditions that existed before the balance sheet date, and if the conditions change the statements should be adjusted accordingly. Non-adjusting events are significant conditions that arise after the balance sheet date, but do not require the statements to be adjusted.

**(a) Adjusting Events**

There have been no significant events occurring after reporting date that require the Consolidated Financial Statements to be adjusted as at 30 June 2014.



**(b) Non-Adjusting Events**

On 26 March 2014 the Government announced a decision to proceed with the sale of Medibank Private Limited (Medibank Private) through an initial public offering.

At the 30 June 2014 Medibank Private was a company limited by shares and wholly-owned by the Commonwealth of Australia.

The Medibank Private Share Offer prospectus was released on 20 October 2014. Medibank Private will be listed on the Australian Stock Exchange on 25 November 2014.

The prospectus provides an indicative price range of between \$1.55 to \$2.00 per share. The sale proceeds are expected to raise between \$4.3 billion to \$5.5 billion.

There are no other significant non-adjusting events that have occurred after the reporting date.

**Note 40: Consolidated revenue fund**

The cash balance reflected in the balance sheet for the General Government Sector (GGS) includes the reported cash balances controlled and administered by Australian Government entities subject to the FMA Act and the reported cash balances controlled and administered by entities, subject to the CAC Act, that implement public policy through the provision of primarily non-market services.

Revenues or moneys raised by the Executive Government automatically form part of the Consolidated Revenue Fund (CRF) by force of section 81 of the Constitution. The CRF will not equal the cash balance reported in the balance sheet. For practical purposes, total Australian Government GGS cash, less cash controlled and administered by CAC Act entities, plus special public monies, represents the CRF referred to in section 81 of the Constitution. On this basis, the balance of the CRF as at 30 June is shown below.

	2014 \$m	2013 \$m
<b>Total general government sector cash</b>	3,844	2,113
<i>less</i> CAC Agency cash balances	(2,217)	(1,952)
<i>plus</i> Special public monies	173	311
<b>Balance of consolidated revenue fund at 30 June</b>	<b>1,800</b>	<b>472</b>

**Note 41: Assets held in trust**

Assets held in trust are moneys that are not held on account of the Australian Government or for the use or benefit of the Australian Government. These funds are held by the Australian Government in a trustee capacity and are generally subject to trust law.

Assets held in trust are not recognised in the primary statements. Details pertaining to assets held in trust can be found in the audited financial reports of individual Australian Government controlled entities.

Assets held in trust that do not stand to the credit of a Special Account are held by the following Australian Government controlled entities (primarily entities subject to the CAC Act).

*Notes to the financial statements*

Commonwealth controlled entity	Description of special public money account	Balance	
		2014 \$m	2013 \$m
Australian Government Solicitor	Solicitor trust accounts	25	7
Australian Securities and Investments Commission	Monies held under reg. 7.6.02AA of the Corporations Regulations	10	11
Australian Securities and Investments Commission	Monies held under section 1284(1) of the Corporations Act	2	2
Comcare	Comcare Beneficiaries Trust Account (BTA)	1	1
Commonwealth Scientific and Industrial Research Organisation	Elwood and Hannah Zimmerman Trust Fund	5	5
Commonwealth Scientific and Industrial Research Organisation	Schlinger Trust	3	2
Indigenous Business Australia	Aboriginal and Torres Strait Islander Commission Funds	4	4
Various entities	Other trust moneys held for various purposes	2	2
<b>Total assets held in trust</b>		<b>52</b>	<b>34</b>

**Note 42: Reconciliations to ABS GFS measures**

The following tables provide a reconciliation of key fiscal aggregates on the face of the financial statements where the amounts reported differ from the corresponding key fiscal aggregates measured under the Australian Bureau of Statistics (ABS) Government Finance Statistics (GFS) manual as at 1 July 2012<sup>(a)</sup>.

	General Government		Public non-financial corporations		Public financial corporations		Eliminations and netting		Australian Government	
	2014 \$m	2013 \$m	2014 \$m	2013 \$m	2014 \$m	2013 \$m	2014 \$m	2013 \$m	2014 \$m	2013 \$m
<b>Note 42(a): Reconciliation to GFS net operating balance</b>										
<b>Net result from transactions - net operating balance reported in Statement of Comprehensive Income</b>	(39,751)	(23,119)	(1,398)	(190)	9,456	881	(1,560)	(1,021)	(33,253)	(23,449)
<b>Convergence differences:</b>										
Unwinding of concessional interest costs(b)	(146)	(181)	-	-	-	-	-	-	(146)	(181)
Concessional interest costs(b)	1,061	870	-	-	-	-	-	-	1,061	870
Seigniorage(c)	(112)	(134)	-	-	-	-	-	-	(112)	(134)
Defence weapons and inventory - net acquisition(d)	(4,461)	(3,200)	-	-	-	-	-	-	(4,461)	(3,200)
Defence weapons and inventory - depreciation and consumption(e)	2,749	2,862	-	-	-	-	-	-	2,749	2,862
Movement in deferred tax assets and deferred tax liabilities	-	-	8	97	1	9	(9)	(106)	-	-
Issue and surrender of free carbon permits(e)	-	-	-	-	-	-	-	-	-	-
Capital grant to the RBA(f)	8,800	-	-	-	(8,800)	-	-	-	-	-
Dividends to GGS from other sectors(g)	-	-	(222)	(289)	(1,319)	(677)	1,541	966	-	-
<b>Total convergence differences</b>	7,891	217	(214)	(192)	(10,118)	(666)	1,532	860	(909)	217
<b>GFS Net operating balance</b>	<b>(31,860)</b>	<b>(22,902)</b>	<b>(1,612)</b>	<b>(382)</b>	<b>(662)</b>	<b>213</b>	<b>(28)</b>	<b>(161)</b>	<b>(34,162)</b>	<b>(23,232)</b>

(a) Under AASB 1049, the financial statements are reconciled to the ABS GFS manual effective at the beginning of the comparative reporting period (1 July 2012), with the exception of defence weapons platforms as detailed in footnote (d) below. The amounts reported may differ to the aggregates subsequently reported by the ABS in the 2013-14 GFS publication because of changes in methodology, differences in interpretation and/or updated information availability subsequent to the release of the Financial Statements.

(b) The financial statements discount concessional loans by a market rate of a similar instrument whereas the ABS GFS manual does not discount as no secondary market is considered to exist.

(c) The financial statements treat the profit between the cost and sale of circulating coin (seigniorage) as revenue whereas the ABS GFS manual treats circulating coin as a liability and the cost to produce the coins as an expense.

- (d) The financial statements treat acquisitions of defence weapons platforms as capital expenditure recognised as an asset with depreciation recorded in the operating statement. The previous ABS GFS manual treated acquisitions of defence weapons platforms and explosive ordnance as an expense at the time of acquisition. This has now been amended in the ABS GFS manual to adopt a consistent treatment to AAS. Under AASB 1049, the amended GFS requirement is mandatory from 2014-15 (refer Note 1.3).
- (e) The issuance and surrender of free carbon units and Australian Carbon Credit Units (ACCUs) used in the settlement of emissions liabilities are not recognised in the financial statements whereas the ABS GFS manual treats the issuance and surrender of these free units as expenses and revenues respectively. As this involves a grossing up of revenues and expenses, the impact on key fiscal aggregates is immaterial.
- (f) The 2013-14 financial statements treated a capital payment to the RBA as a capital grant expense for the General Government Sector and revenue for the Public Financial Corporations Sector. The ABS GFS manual treats this as an equity injection which would not appear on the operating statement.
- (g) The financial statements treat dividends to the General Government Sector as a distribution to owners whereas the ABS GFS manual treats dividends to owners as an expense.

**Note 42: Reconciliations to ABS GFS measures (continued)**

	General Government		Public non-financial corporations		Public financial corporations		Eliminations and netting		Australian Government	
	2014 \$m	2013 \$m	2014 \$m	2013 \$m	2014 \$m	2013 \$m	2014 \$m	2013 \$m	2014 \$m	2013 \$m
<b>Note 42(b): Reconciliation to GFS total change in net worth</b>										
<b>Total change in net worth before transactions with owners in their capacity as owners as reported in Statement of Comprehensive Income</b>	(54,269)	45,305	(1,105)	(500)	10,116	3,740	(9,167)	(2,217)	(54,425)	46,328
<b>Convergence differences:</b>										
Relating to net operating balance	7,891	217	(214)	(192)	(10,118)	(668)	1,532	860	(909)	217
Relating to other economic flows	(4,952)	(240)	(1,692)	(1,632)	1,321	(2,395)	9,333	1,039	4,010	(3,227)
Relating to transactions with owners	-	-	3,011	2,324	(1,319)	(677)	(1,692)	(1,647)	-	-
<b>Total convergence differences</b>	2,940	(23)	1,105	500	(10,116)	(3,740)	9,173	252	3,102	(3,011)
<b>GFS Total change in net worth</b>	<b>(51,329)</b>	<b>45,282</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>6</b>	<b>(1,965)</b>	<b>(51,323)</b>	<b>43,317</b>

**Note 42: Reconciliations to ABS GFS measures (continued)**

	General Government		Public non-financial corporations		Public financial corporations		Eliminations and netting		Australian Government	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>Note 42(c): Reconciliation GFS net lending/(borrowing)</b>										
<b>Net lending/(borrowing) as reported in Statement of Comprehensive Income</b>	(43,601)	(24,107)	(5,818)	(3,776)	8,739	942	(1,561)	(1,019)	(42,241)	(27,960)
<b>Convergence differences:</b>										
Relating to net operating balance	7,891	217	(214)	(192)	(10,118)	(668)	1,532	860	(909)	217
Defence weapons and inventory - net acquisition(a)	4,461	3,200	-	-	-	-	-	-	4,461	3,200
Defence weapons and inventory - depreciation and consumption(a)	(2,749)	(2,862)	-	-	-	-	-	-	(2,749)	(2,862)
Auction sales of spectrum(b)	-	1,965	-	-	-	-	-	-	-	1,965
<b>Total convergence differences</b>	9,603	2,520	(214)	(192)	(10,118)	(668)	1,532	860	803	2,520
<b>GFS Net lending/(borrowing)</b>	<b>(33,998)</b>	<b>(21,587)</b>	<b>(6,032)</b>	<b>(3,968)</b>	<b>(1,379)</b>	<b>274</b>	<b>(29)</b>	<b>(159)</b>	<b>(41,438)</b>	<b>(25,440)</b>

(a) The financial statements treat acquisitions of defence weapons platforms as capital expenditure recognised as an asset with depreciation of defence weapons platforms and consumption of explosive ordnance treated as an expense in the operating statement. The previous ABS GFS manual treated acquisitions of defence weapons platforms and explosive ordnance as an expense at the time of acquisition. This has now been amended in the ABS GFS manual to adopt a consistent treatment to AAS. Under AASB 1049, the amended GFS requirement is mandatory from 2014-15 (refer Note 1.3).

(b) The financial statements recognise the disposal of spectrum licences at the point of issue whereas the ABS GFS manual recognises spectrum licences at the time of auction and the proceeds from their sale at the point of auction, reflected on the balance sheet as a receivable.

**Note 42: Reconciliations to ABS GFS measures (continued)**

	General Government		Public non-financial corporations		Public financial corporations		Eliminations and netting		Australian Government	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>Note 42(d): Reconciliation to GFS net worth</b>										
<b>Net worth as reported in Balance Sheet</b>	(261,092)	(207,401)	12,293	10,371	20,651	11,852	(36,166)	(25,305)	(264,314)	(210,483)
<b>Convergence differences:</b>										
Provision for doubtful debts(a)	25,761	23,258	13	11	8	11	-	-	25,782	23,280
Concessional loans and investments(b)	8,688	7,764	-	-	-	-	-	-	8,688	7,764
Investment in other sector entities(c)	(3,445)	(3,626)	-	-	-	-	3,445	3,626	-	-
Deferred tax assets(d)	-	-	(909)	(903)	(12)	(13)	921	916	-	-
Defence weapons platforms and inventory(e)	(43,760)	(42,631)	-	-	-	-	-	-	(43,760)	(42,631)
Dividend payable	-	-	-	-	-	-	-	-	-	-
Special drawing rights (SDR)(f)	-	-	-	-	-	-	-	-	-	-
Seigniorage(g)	(3,750)	(3,638)	-	-	-	-	-	-	(3,750)	(3,638)
Deferred tax liability(d)	-	-	537	523	-	-	(537)	(523)	-	-
Auction sales of spectrum(h)	1,965	1,965	-	-	-	-	-	-	1,965	1,965
Shares and other contributed capital(i)	-	-	(11,934)	(10,002)	(20,647)	(11,850)	32,337	21,286	(244)	(566)
Minority interests	-	-	-	-	-	-	-	-	-	-
<b>Total convergence differences</b>	(14,542)	(16,909)	(12,293)	(10,371)	(20,651)	(11,852)	36,166	25,305	(11,320)	(13,827)
<b>GFS Net worth</b>	<b>(275,634)</b>	<b>(224,310)</b>	-	-	-	-	-	-	<b>(275,634)</b>	<b>(224,310)</b>

(a) The financial statements treat provisions for doubtful debts as an offset to the asset in the balance sheet. The ABS GFS manual does not consider the creation of a provision to be an economic event and therefore excludes it from the balance sheet.

(b) The financial statements discount concessional loans by a market rate of a similar instrument whereas the ABS GFS manual does not discount as no secondary market is considered to exist.

(c) The financial statements apply AASB 13 to the valuation of the General Government Sector'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.

(d) Deferred tax assets and deferred tax liabilities are reported in the financial statements whereas the ABS GFS manual does not recognise these items.

(e) The financial statements treat acquisitions of defence weapons platforms and explosive ordnance as capital expenditure recognised as an asset in the balance sheet. The previous ABS GFS manual treated acquisitions of defence weapons platforms and explosive ordnance as an expense at the time of acquisition. This has now been amended in the ABS GFS manual to adopt a consistent treatment to AAS. Under AASB 1049, the amended GFS requirement is mandatory from 2014-15 (refer Note 1.3).

(f) The previous ABS GFS manual treated SDR currency issued by the IMF as a contingent liability. The ABS GFS manual version as at 1 July 2012 now treats SDR currency issued by the IMF as a liability which is consistent with AAS. The comparative reconciliation has been restated to remove this divergence.

(g) The financial statements treat the profit between the cost and sale of circulating coin (seigniorage) as revenue whereas the ABS GFS manual treats circulating coin as a liability and the cost to produce the coins as an expense.

(h) The financial statements recognise the disposal of spectrum licences at the point of issue whereas the ABS GFS manual recognises spectrum licences at the time of auction and the proceeds from their sale at the point of auction, reflected on the balance sheet as a receivable.

(i) The financial statements treat shares and other contributed capital in public corporations as part of net worth whereas the ABS GFS manual deducts shares and other contributed capital in the calculation of net worth (with net worth calculated as assets less liabilities less shares and other contributed equity).

**Note 42: Reconciliations to ABS GFS measures (continued)**

The ABS GFS manual measures inventory at market value (rather than the lower of cost and net realisable value). It also does not recognise the provision for decommissioning/restoration costs. The above reconciliation has not been adjusted for these items on the basis of materiality and information availability.

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



**Note 43: Audit expenses**

With the exception of a small number of entities, audit services within the reporting entity are provided by the Auditor-General. The cost of these services which include performance and financial statement audits, totalled \$75.2 million (2013: \$71.7 million). This amount includes \$0.7 million for the audit of the Consolidated Financial Statements (2013: \$0.7 million).

Of this, \$44.5 million (2013: \$42.2 million) relates to financial statement audit report expense and \$30.0 million (2013: \$28.8 million) to all other Australian National Audit Office output expenses.

**Note 44: Explanation of major variances between the general government sector budget and the actual outcomes**

The following tables provide a comparison of the original budget as presented in Budget Paper No. 1 *Budget Strategy and Outlook 2013-14*, Statement 9 Australian Government Budget Financial Statements to the 2013-14 final outcome as presented in accordance with AASB 1049 for the general government sector (GGS).

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.

Notes to the financial statements

**General government sector operating statement 2013-14**

	2014 Actual \$m	Original budget(a) \$m	Budget variance \$m	Revised budget(b) \$m
<b>Revenue from transactions</b>				
Taxation revenue	349,208	366,664	(17,456)	350,956
Sales of goods and services	8,575	8,577	(2)	8,853
Interest income	3,339	4,313	(974)	3,445
Dividend income	4,105	2,426	1,679	4,288
Other	6,843	5,768	1,075	6,724
<b>Total revenue</b>	<b>372,070</b>	<b>387,749</b>	<b>(15,679)</b>	<b>374,267</b>
<b>Expenses from transactions</b>				
<i>Gross operating expenses</i>				
Wages and salaries	18,823	19,772	(949)	19,532
Superannuation	6,372	4,039	2,333	6,235
Depreciation and amortisation	6,340	5,813	527	6,474
Supply of goods and services	75,134	75,918	(784)	74,552
Other operating expenses	6,017	5,467	550	6,039
<i>Total gross operating expenses</i>	<i>112,686</i>	<i>111,009</i>	<i>1,677</i>	<i>112,833</i>
Superannuation interest expense	8,214	8,462	(248)	8,320
Interest expenses	15,050	14,008	1,042	14,396
Current transfers				
Current grants	115,960	118,137	(2,177)	117,437
Subsidy expenses	13,368	14,944	(1,576)	15,534
Personal benefits	125,184	121,699	3,485	124,944
<i>Total current transfers</i>	<i>254,512</i>	<i>254,780</i>	<i>(269)</i>	<i>257,915</i>
Capital transfers				
Mutually agreed write-downs	2,627	2,137	490	3,094
Other capital grants	18,732	7,905	10,827	18,736
<i>Total capital transfers</i>	<i>21,359</i>	<i>10,042</i>	<i>11,317</i>	<i>21,830</i>
<b>Total expenses</b>	<b>411,821</b>	<b>398,301</b>	<b>13,520</b>	<b>415,294</b>
<b>Net operating balance</b>	<b>(39,751)</b>	<b>(10,552)</b>	<b>(29,199)</b>	<b>(41,027)</b>

(a) Original budget for 2013-14 as presented in the 2013-14 Budget papers released in May 2013.

(b) Revised budget for 2013-14 as presented in the 2014-15 Budget papers released in May 2014.

**General government sector operating statement 2013-14 (continued)**

	2014 Actual \$m	Original budget(a) \$m	Budget variance \$m	Revised budget(b) \$m
<b>Other economic flows included in operating result</b>				
Net write-downs of assets (including bad and doubtful debts)	(7,221)	(7,488)	267	(5,278)
Assets recognised for the first time	310	559	(249)	330
Net gain/(loss) from the sale of assets	6,093	-	6,093	-
Net foreign exchange gains	(402)	73	(475)	(447)
Net swap interest received	(524)	-	(524)	(663)
Other gains/(losses)	(8,386)	6,579	(14,965)	11,712
Share of net result from associates and joint ventures accounted for using the equity method	64	-	64	-
<b>Total Other economic flows included in operating result</b>	<b>(10,066)</b>	<b>(278)</b>	<b>(9,788)</b>	<b>5,655</b>
<b>Operating Result</b>	<b>(49,817)</b>	<b>(10,830)</b>	<b>(38,987)</b>	<b>(35,372)</b>
<b>Other economic flows - Other non-owner movements in equity</b>				
Revaluation of equity	7,679	(2,223)	9,902	7,185
Revaluation of non-financial assets	1,158	23	1,135	-
Actuarial revaluations of superannuation	(13,233)	140	(13,373)	(6,720)
Other economic revaluations	(58)	543	(601)	704
<b>Total other economic flows included in equity</b>	<b>(4,454)</b>	<b>(1,517)</b>	<b>(2,937)</b>	<b>1,168</b>
<b>Comprehensive result - Total change in net worth</b>	<b>(54,271)</b>	<b>(12,347)</b>	<b>(41,924)</b>	<b>(34,204)</b>
<b>Net operating balance</b>	<b>(39,751)</b>	<b>(10,552)</b>	<b>(29,199)</b>	<b>(41,027)</b>
<b>less Net acquisition of non-financial assets</b>				
Purchases of non-financial assets	9,613	8,755	858	10,240
less Sales of non-financial assets	241	346	(105)	273
less Depreciation	6,341	5,813	528	6,474
plus Change in inventories	704	270	434	430
plus Other movements in non-financial assets	115	78	37	105
<b>Total net acquisition of non-financial assets</b>	<b>3,850</b>	<b>2,945</b>	<b>905</b>	<b>4,027</b>
<b>Fiscal balance (net lending/borrowing)</b>	<b>(43,601)</b>	<b>(13,497)</b>	<b>(30,104)</b>	<b>(45,055)</b>

(a) Original budget for 2013-14 as presented in the 2013-14 Budget papers released in May 2013.

(b) Revised budget for 2013-14 as presented in the 2014-15 Budget papers released in May 2014.

**Fiscal balance**

The fiscal balance for the year to 30 June 2014 was a deficit of \$43.6 billion, representing a movement of \$30.1 billion on the original 2013-14 estimated deficit of \$13.5 billion.

**Revenue**

The total revenue for 2013-14 was \$372.1 billion, \$15.7 billion (4.0 per cent) lower than the original budget of \$387.7 billion.

*Notes to the financial statements*

Total taxation revenue was lower by \$17.5 billion (to \$349.2 billion) compared to the original budget of \$366.7 billion. The key drivers for the change included:

- a shortfall of \$7.4 billion in individuals and other withholding taxes consistent with weaker than expected growth in wages and salaries;
- a shortfall of \$5.2 billion in company tax reflecting weaker economic conditions affecting corporate profitability;
- a shortfall of \$3.6 billion in carbon pricing mechanism revenue. Around \$2.3 billion of this was the result of using different accounting treatments for the 2013-14 Budget forecast and the outcome. This affects both revenue and expenses and has no net impact on the fiscal balance. The remaining difference was consistent with lower than expected covered emissions. The carbon estimates are considered preliminary as certain emitters are not required to report in interim emissions reports, and emitters may base their interim report on the previous year's emissions. Information on actual 2013-14 emissions will become available following the final emissions reporting in late 2014;
- a shortfall of \$2.3 billion in superannuation funds consistent with lower than expected taxable contributions and earnings;
- a shortfall of \$1.6 billion in resources rent taxes reflecting lower than budgeted revenue from both the petroleum resource rent tax and the minerals resource rent; partly offset by
  - an excess of \$2.4 billion in the goods and services tax reflecting stronger than expected collections.

The total non-taxation revenue from transactions for 2013-14 was \$22.9 billion, an increase of \$1.8 billion compared to the original budget of \$21.1 billion. The increase was primarily driven by:

- an increase of \$1.7 billion in dividend income mainly relating to dividend received from the RBA (\$1.2 billion) and investments managed by the Future Fund (\$0.7 billion), offset by small decreases across a number of agencies;
- an increase of \$1.1 billion in other revenue. This increase in revenue was driven by an increase in unclaimed superannuation money received by the ATO (\$0.3 billion), petroleum royalties (\$0.4 billion) and resources received free of charge associated with the Water Reform Programme (\$0.1 billion); offset by
  - a decrease of \$1.0 billion in interest income driven by the Future Fund, impacted by the strategic asset allocation.

## Expenses

Total expenses grew by \$13.5 billion (3.4 per cent) to \$411.8 billion compared to the original budget of \$398.3 billion.

The total gross operating expenses for 2013-14 amounted to \$112.7 billion, an increase of \$1.7 billion compared to the original budget of \$111.0 billion. The change was mainly driven by:

- superannuation expense increased by \$2.3 billion mainly due to the different interest rates used in calculating the budget and actuals figures for civilian superannuation schemes;
- other operating expenses increased by \$0.6 billion due to increases in employee costs other than wages and salaries. This included a \$0.5 billion increase in separations and redundancies across a number of agencies;
- depreciation and amortisation increased by \$0.5 billion mainly due to an increase in Defence's asset base; and
- the above increases were partially offset by a \$0.9 billion reduction in wages and salaries across a number of agencies and a \$0.8 billion decrease in supply of goods and services.

Interest expenses increased by \$1.0 billion mainly relating to the interest on Government securities reflecting the increase in Government securities on issue.

Total current and capital transfers increased by \$11.1 billion to \$275.9 billion against an original budget of \$264.8 billion. The key drivers for the increase included:

- an increase of \$9.1 billion in current and capital grants mainly relating to a one-off \$8.8 billion grant payment to the RBA to help manage future economic crises, an increase of \$1.2 billion in General Revenue Assistance to the States, an increase of \$1.5 billion on road transport, offset by a decrease of \$0.8 billion in primary care practice incentives reclassified to personal benefit payments and a decrease in \$0.6 billion in resources related initiatives and management; and
- personal benefits increased by \$3.5 billion mainly relating to the childcare benefit and rebate, Private Health Insurance rebate reflecting greater than expected numbers of people with subsidised health cover, parents and baby payments and primary care practice incentives reclassified from grants to personal benefits payment; offset by
  - subsidy expenses decreased by \$1.5 billion mainly due to the research and development tax incentive programme administered by the ATO.

*Notes to the financial statements*

**Net acquisition of non-financial assets**

Net acquisition of non-financial assets was \$0.9 billion higher than the original budget due to an increase in purchases of non-financial assets of \$0.9 billion and increased inventories of \$0.4 billion, offset by an increase in depreciation of \$0.5 billion. The major increases relate to Defence for the purchase of specialist military equipment.

Detailed explanations of the changes to revenue, expenses and net acquisition of non-financial assets can be found in the *Mid-Year Economic and Fiscal Outlook 2013-14* (Part 3: Fiscal Strategy and Outlook), Budget Paper No. 1 *Budget Strategy and Outlook 2014-15* and the *Final Budget Outcome 2013-14* (Part 1).

**Other economic flows**

Net losses from other economic flows included in operating result and equity increased from a budgeted net loss of \$1.8 billion to an actual net loss of \$14.5 billion. The primary reasons for the \$12.7 billion reduction in net worth are the changes in:

- the market value of debt (\$6.6 billion);
- the revaluation of superannuation liabilities (\$20.9 billion), primarily as a result of the change in the discount rate which is tied to the government bond rate (the budget does not estimate changes in discount rates in the estimation of the superannuation liability);
- the revaluation of equity (\$9.9 billion) in public corporations; and
- net gains from the sale of assets (\$6.1 billion) primarily attributable to the Future Fund gain on the sale of investments.

**General government sector balance sheet as at 30 June 2014**

	2014 Actual \$m	Original budget(a) \$m	Budget variance \$m	Revised budget(b) \$m
<b>Assets</b>				
Financial assets				
Cash and deposits	3,844	2,679	1,165	3,004
Advances paid	34,040	41,017	(6,977)	39,737
Other receivables	42,629	44,500	(1,871)	46,051
Investments, loans and placements	117,611	112,965	4,646	117,371
Equity investments	75,576	60,565	15,011	73,630
<i>Total financial assets</i>	<i>273,700</i>	<i>261,725</i>	<i>11,975</i>	<i>279,792</i>
Non-financial assets				
Land	9,331	8,719	612	8,929
Buildings	24,723	24,454	269	24,335
Plant, equipment and infrastructure	54,294	54,888	(594)	54,875
Intangibles	6,137	5,712	425	5,810
Investment property	183	182	1	196
Inventories	8,253	7,206	1,047	7,942
Biological assets	36	37	(1)	35
Heritage and cultural assets	10,825	10,465	360	10,573
Assets held for sale	95	83	12	136
Other non-financial assets	3,395	3,130	265	397
<i>Total non-financial assets</i>	<i>117,272</i>	<i>114,876</i>	<i>2,396</i>	<i>113,228</i>
<b>Total assets</b>	<b>390,972</b>	<b>376,601</b>	<b>14,371</b>	<b>393,020</b>
<b>Liabilities</b>				
Interest bearing liabilities				
Deposits held	211	192	19	182
Government securities	351,282	321,252	30,030	346,648
Loans and other interest bearing liabilities	10,382	11,851	(1,469)	9,608
Other borrowing	1,529	1,470	59	1,524
<i>Total interest bearing liabilities</i>	<i>363,404</i>	<i>334,765</i>	<i>28,639</i>	<i>357,963</i>
Provisions and payables				
Superannuation liability	221,747	148,710	73,037	157,067
Other employee liabilities	15,930	14,829	1,101	15,102
Suppliers payable	4,882	4,259	623	4,632
Personal benefits payable	5,607	6,641	(1,034)	12,384
Subsidies payable	4,482	3,475	1,007	4,242
Grants payable	3,355	4,236	(881)	14,170
Other payables and provisions	32,657	33,145	(488)	13,879
<i>Total provisions and payables</i>	<i>288,660</i>	<i>215,294</i>	<i>73,366</i>	<i>221,477</i>
<b>Total liabilities</b>	<b>652,064</b>	<b>550,059</b>	<b>102,005</b>	<b>579,439</b>
<b>Net worth</b>	<b>(261,092)</b>	<b>(173,458)</b>	<b>(87,634)</b>	<b>(186,419)</b>

(a) Original budget for 2013-14 as presented in the 2013-14 Budget papers released in May 2013.

(b) Revised budget for 2013-14 as presented in the 2014-15 Budget papers released in May 2014.

*Notes to the financial statements*

**Net worth**

Net worth for the financial year ended 30 June 2014 was negative \$261.1 billion. This represented a further \$87.6 billion decrease on the original 2013-14 estimated net worth of negative \$173.5 billion. The change in net worth reflected an increase of \$14.4 billion in assets and an increase of \$102.0 billion in liabilities.

**Assets**

Total assets increased by \$14.4 billion (3.8 per cent) to \$391.0 billion at 30 June 2014. This increase is mainly related to financial assets.

The key movements in financial assets from the original budget to the final outcome included the following:

- increase in cash of \$1.2 billion is largely as a result of growth in term deposits managed by AOFM.
- increase in investments, loans and placements of \$4.6 billion. This increase was primarily due to:
  - a \$6.6 billion increase in the value of deposits and securities held by the AOFM due to changes in cash management or liquidity requirements compared to the original forecast; and
  - a \$2.4 billion increase in investments managed by the Future Fund; offset by
  - a \$4.5 billion decrease in the value of the IMF Quota payments due to international delays in the implementation of the 2010 IMF reforms.
- increase in equity investments of \$15.0 billion. This increase was primarily due to:
  - a \$5.5 billion increase in investments managed by the Future Fund; and
  - a \$9.8 billion increase in Administered Investments in Portfolio Entities held by the Department of Treasury's investment in the RBA and the Clean Energy Finance Corporation which increased during 2013-14. Other contributors included an investment valuation adjustment for investments in the Finance portfolio as at 30 June 2014.
- decrease in advances paid of \$7.0 billion. This was mainly due to the different measurement techniques used between the original budget and the consolidated financial statements for the value of the advances paid to the International Development Association (IDA) and Asian Development Fund (ADF). In the original budget, IDA/ADF was recorded at nominal value whilst for the purpose of actual reporting fair value was used (see note 1.3 and the 2013-14 Budget Paper (No. 1) Statement 9 for more detail). The decrease was also driven by lower



Higher Education Loan Programme (HELP) receivable of \$1.1 billion reflecting actuarial movements; and

- decrease in other receivables of \$1.9 billion predominantly due to the delay in the spectrum sale process.

The key movements in non-financial assets of \$2.4 billion from the original budget to the final outcome included the following:

- a \$1.4 billion increase in non-financial assets, including \$0.6 billion for land; \$0.4 billion for heritage and cultural assets; and \$0.4 billion for intangibles; offset by a \$0.6 billion decrease in plant, equipment and infrastructure; and
- a \$1.0 billion increase in inventories relating to Defence. The main driver for this increase is the difference between explosive ordnance acquired and ordnance consumed for the year.

#### Liabilities

Total liabilities increased by \$102.0 billion (18.6 per cent) to \$652.1 billion at 30 June 2014.

This movement included an increase of \$73.4 billion (34.1 per cent) in provisions and payables to a balance of \$288.7 billion and an increase of \$28.6 billion (8.6 per cent) in interest bearing liabilities to a balance of \$363.4 billion.

The key movements in provisions and payables from the original budget to the final outcome included the following:

- increase of \$73.0 billion in the Australian Government's superannuation liabilities. An increase of \$61.5 billion was due to the different discount rates used to value the liability. In the original budget, a discount rate applied by the actuaries in preparing the Long-term Cost Report was used to value the superannuation liability to allow comparability between years for budget estimates. Consistent with the Australian Accounting Standards, the long-term government bond rate as at 30 June was used to calculate the superannuation liability for the purpose of actuals reporting. Additional information about the measurement of the superannuation liability between the budget and the final outcome is provided in note 1 and the 2013-14 Budget Paper (No. 1) Statement 9. In addition, revised indexation arrangements for military superannuation pensions have increased the liability by \$7.8 billion. A further \$3.6 billion increase is due to the adoption of revised actuarial assumptions for the PSS scheme;
- increase of \$1.1 billion in other employee liabilities. This includes a \$0.4 billion increase associated with the actuarial revaluation of Military Compensation Claims under the *Military Rehabilitation and Compensation Act 2004* and the *Safety, Rehabilitation and Compensation Act 1988*, a \$0.5 billion increase in the provision for

*Notes to the financial statements*

workers compensation and insurance claims and \$0.2 billion for separation and redundancy provisions across a number of agencies;

- increase of \$1.0 billion in subsidies payable mainly due to the Fuel Tax Credits Scheme; and
- increase of \$0.6 billion in suppliers payable mainly associated with the Future Fund due to an increase in unsettled trades; offset by
- decrease of \$1.0 billion in personal benefits payable in part due to the reclassification of childcare assistance to provisions;
- decrease of \$0.9 billion in grants payables mainly attributable to revised expenditure estimates since original budget for overseas aid; and
- decrease of \$0.5 billion in other payables and provisions, driven by a \$0.7 billion decrease in the provision for unfunded university superannuation, a \$0.2 billion decrease in the provision for interest on the overpayment of taxes, a \$0.3 billion in other taxation provisions and payables, \$0.3 billion decrease in unearned income for the levy on wholesale funding and large deposits and decreases across a number of agencies. These decreases were partly offset by the reclassification of childcare assistance from personal benefits.

The key movements in interest bearing liabilities from the original budget to the final outcome included the following:

- increase in Commonwealth Government Securities of \$30.0 billion by the AOFM. The issuance volume was higher than predicted at the 2013-14 Budget which was partly offset by lower premiums on issuance and a lower than forecast mark-to-market adjustment; offset by
- decrease in loans and other interest bearing liabilities of \$1.5 billion mainly relating to:
  - decrease of \$2.5 billion in Treasury Promissory Notes due to changes in 2013-14 calls on quota resources following the release of drawings by the IMF, as well as changes in exchange rates; offset by
  - increase of \$0.5 billion in swap principal payable held by the Future Fund; and
  - increase of \$0.4 billion in Treasury Special Drawing Rights due to changes in exchange rates.

**General government sector cash flow statement 2013-14**

	2014 Actual \$m	Original budget(a) \$m	Budget variance \$m	Revised budget(b) \$m
<b>OPERATING ACTIVITIES</b>				
<b>Cash received</b>				
Taxes received	338,368	354,854	(16,486)	341,643
Receipts from sales of goods and services	8,579	8,639	(60)	8,764
Interest receipts	3,128	4,074	(946)	3,210
Dividend receipts	2,978	2,526	452	3,040
Other receipts	6,811	5,496	1,315	6,376
<b>Total cash received</b>	<b>359,864</b>	<b>375,589</b>	<b>(15,725)</b>	<b>363,032</b>
<b>Cash used</b>				
Payments for employees	(25,889)	(26,909)	1,020	(26,587)
Payments for goods and services	(75,845)	(76,293)	448	(74,438)
Grants and subsidies paid	(148,990)	(139,740)	(9,250)	(152,953)
Interest paid	(13,972)	(11,909)	(2,063)	(13,935)
Personal benefits	(126,367)	(122,319)	(4,048)	(126,398)
Other payments	(5,769)	(5,271)	(498)	(6,056)
<b>Total cash used</b>	<b>(396,832)</b>	<b>(382,442)</b>	<b>(14,390)</b>	<b>(400,366)</b>
<b>Net cash from/(used by) operating activities</b>	<b>(36,968)</b>	<b>(6,853)</b>	<b>(30,115)</b>	<b>(37,334)</b>
<b>INVESTING ACTIVITIES</b>				
<b>Cash flows from investments in non-financial assets</b>				
Sales of non-financial assets	457	405	52	464
Purchases of non-financial assets	(9,012)	(8,288)	(724)	(9,827)
<b>Net cash flows from investments in non-financial assets</b>	<b>(8,555)</b>	<b>(7,883)</b>	<b>(672)</b>	<b>(9,363)</b>
<b>Cash flows from investments in financial assets for policy purposes</b>				
Net advances repaid/(paid)	(6,371)	(10,073)	3,702	(6,575)
<b>Net cash flows from investments in financial assets for policy purposes</b>	<b>(6,371)</b>	<b>(10,073)</b>	<b>3,702</b>	<b>(6,575)</b>
<b>Cash flows from investments in financial assets for liquidity purposes</b>				
Decrease/(Increase) in investments	(7,718)	(4,919)	(2,799)	(8,592)
<b>Net cash flows from investments in financial assets for liquidity purposes</b>	<b>(7,718)</b>	<b>(4,919)</b>	<b>(2,799)</b>	<b>(8,592)</b>
<b>Net cash from/(used by) investing activities</b>	<b>(22,644)</b>	<b>(22,874)</b>	<b>230</b>	<b>(24,530)</b>
<b>FINANCING ACTIVITIES</b>				
<b>Cash flows from financing activities</b>				
<b>Cash received</b>				
Borrowings	63,218	31,996	31,222	64,689
Other financing	-	-	-	17
<b>Total cash received</b>	<b>63,218</b>	<b>31,996</b>	<b>31,222</b>	<b>64,706</b>
<b>Cash used</b>				
Other financing	(1,875)	(2,059)	184	(1,914)
<b>Total cash used</b>	<b>(1,875)</b>	<b>(2,059)</b>	<b>184</b>	<b>(1,914)</b>
<b>Net cash flows from financing activities</b>	<b>61,343</b>	<b>29,937</b>	<b>31,406</b>	<b>62,792</b>
<b>Net (decrease)/increase in cash held</b>	<b>1,731</b>	<b>209</b>	<b>1,522</b>	<b>928</b>

(a) Original budget for 2013-14 as presented in the 2013-14 Budget papers released in May 2013.

(b) Revised budget for 2013-14 as presented in the 2014-15 Budget papers released in May 2014.

**General government sector cash flow statement 2013-14 (continued)**

	2014 Actual \$m	Original budget(a) \$m	Budget variance \$m	Revised budget(b) \$m
<b>Cash at beginning of year</b>	2,113	(17)	2,130	2,075
<b>Cash at end of year</b>	<b>3,844</b>	<b>192</b>	<b>3,652</b>	<b>3,004</b>
<b>Key fiscal aggregate</b>				
Net cash flows from operating activities	(36,968)	(6,853)	(30,115)	(37,334)
Net cash flows from investments in non-financial assets	(8,555)	(7,883)	(672)	(9,363)
<b>Cash surplus/(deficit)</b>	<b>(45,523)</b>	<b>(14,736)</b>	<b>(30,787)</b>	<b>(46,698)</b>
Finance leases and similar arrangements	(586)	(469)	(117)	(469)
<b>GFS cash surplus/(deficit)</b>	<b>(46,109)</b>	<b>(15,205)</b>	<b>(30,904)</b>	<b>(47,166)</b>

(a) Original budget for 2013-14 as presented in the 2013-14 Budget papers released in May 2013.

(b) Revised budget for 2013-14 as presented in the 2014-15 Budget papers released in May 2014.

In 2013-14 the Australian Government had a GFS cash deficit of \$46.1 billion, compared to a budgeted GFS cash deficit of \$15.2 billion. This represented a movement of \$30.9 billion.

The change in the cash flows primarily reflected a decrease in tax receipts, increase in grants and subsidies paid, personal benefits payment and interest paid, offset by a decrease in payments for employees and higher other receipts.

**Note 45: 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 2014.

**Agriculture Portfolio**

*General government*

Australian Fisheries Management Authority  
 Australian Pesticides and Veterinary Medicines Authority  
 Cotton Research and Development Corporation  
 Department of Agriculture  
 Fisheries Research and Development Corporation  
 Grains Research and Development Corporation  
 Grape and Wine Research Development Corporation  
 Rural Industries Research and Development Corporation  
 Wine Australia Corporation

Attorney-General's Portfolio

*General government*

Administrative Appeals Tribunal  
Attorney-General's Department  
Australian Business Arts Foundation Ltd (Creative Partnerships Australia)  
(company limited by guarantee)  
Australian Commission for Law Enforcement Integrity  
Australia Council  
Australian Crime Commission  
Australian Federal Police  
Australian Film, Television and Radio School  
Australian Financial Security Authority  
Australian Human Rights Commission  
Australian Institute of Criminology  
Australian Law Reform Commission  
Australian National Maritime Museum  
Australian Security Intelligence Organisation  
Australian Transaction Reports and Analysis Centre  
Bundanon Trust (company limited by guarantee)  
Crimtrac Agency  
Family Court and Federal Circuit Court  
Federal Court of Australia  
High Court of Australia  
National Archives of Australia  
National Film and Sound Archive Australia  
National Gallery of Australia  
National Library of Australia  
National Museum of Australia  
National Portrait Gallery of Australia  
Office of Parliamentary Counsel  
Office of the Australian Information Commissioner  
Office of the Director of Public Prosecutions  
Old Parliament House  
Screen Australia

*Public non-financial corporations*

Australian Government Solicitor

Communications Portfolio

*General government*

Australian Broadcasting Corporation  
Australian Communications and Media Authority  
Department of Communications  
Special Broadcasting Service Corporation  
Telecommunications Universal Service Management Agency

*Notes to the financial statements*

***Public non-financial corporations***

Australian Postal Corporation  
NBN Co Ltd

**Defence Portfolio**

***General government***

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

**Education Portfolio**

***General government***

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

**Employment Portfolio**

***General government***

Asbestos Safety and Eradication Agency  
Comcare  
Department of Employment  
Fair Work Commission  
Office of the Fair Work Building Industry Inspectorate  
(Fair Work Building and Construction)  
Office of the Fair Work Ombudsman

Safe Work Australia  
Seafarers Safety, Rehabilitation and Compensation Authority (Seacare Authority)  
Workplace Gender Equality Agency

*Public financial corporations*

Coal Mining Industry (Long Service Leave Funding) Corporation

Environment Portfolio

*General government*

Bureau of Meteorology  
Clean Energy Regulator  
Climate Change Authority  
Department of the Environment  
Director of National Parks  
Great Barrier Reef Marine Park Authority  
Low Carbon Australia Ltd (company limited by guarantee)  
Murray-Darling Basin Authority  
National Water Commission  
Sydney Harbour Federation Trust

Finance Portfolio

*General government*

Australian Electoral Commission  
Commonwealth Superannuation Corporation  
ComSuper  
Department of Finance  
Future Fund Management Agency

*Public financial corporations*

Medibank Private Ltd

*Public non-financial corporations*

Albury-Wodonga Development Corporation  
ASC Pty Ltd  
Australian River Co Ltd

*Notes to the financial statements*

Foreign Affairs and Trade Portfolio

*General government*

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

*Public financial corporations*

Export Finance and Insurance Corporation

Health Portfolio

*General government*

Australian Commission on Safety and Quality in Health Care  
Australian Institute of Health and Welfare  
Australian Organ and Tissue Donation and Transplantation Authority  
(Organ and Tissue Authority)  
Australian Radiation Protection and Nuclear Safety Agency  
Australian Sports Anti-Doping Authority  
Australian Sports Commission  
Australian Sports Foundation Ltd (company limited by guarantee)  
Cancer Australia  
Department of Health  
Food Standards Australia New Zealand  
General Practice Education and Training Ltd (company limited by guarantee)  
Health Workforce Australia  
Independent Hospital Pricing Authority  
National Blood Authority  
National Health Funding Body  
National Health and Medical Research Council  
National Health Performance Authority  
National Mental Health Commission  
Private Health Insurance Administration Council  
Private Health Insurance Ombudsman  
Professional Services Review Scheme

Immigration and Border Protection Portfolio

*General government*

Department of Immigration and Border Protection  
Australian Customs and Border Protection Service  
Migration Review Tribunal and Refugee Review Tribunal



Industry Portfolio

*General government*

Australian Institute of Marine Science  
Australian Nuclear Science and Technology Organisation  
Australian Renewable Energy Agency  
Australian Skills Quality Authority  
(National Vocational Education and Training Regulator)  
Commonwealth Scientific and Industrial Research Organisation  
Department of Industry  
Geoscience Australia  
IIF Investments Pty Ltd  
IP Australia  
National Offshore Petroleum Safety and Environmental Management Authority

*Public non-financial corporations*

ANSTO Nuclear Medicine Pty Ltd

Infrastructure and Regional Development Portfolio

*General government*

Australian Maritime Safety Authority  
Australian Transport Safety Bureau  
Civil Aviation Safety Authority  
Department of Infrastructure and Regional Development  
National Capital Authority  
National Transport Commission

*Public non-financial corporations*

Airservices Australia  
Australian Rail Track Corporation Ltd  
Moorebank Intermodal Company Ltd

Parliamentary Departments

*General government*

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

*Notes to the financial statements*

Prime Minister and Cabinet Portfolio

*General government*

Aboriginal Hostels Ltd (company limited by guarantee)  
Anindilyakwa Land Council  
Australian Institute of Aboriginal and Torres Strait Islander Studies  
Australian National Audit Office  
Australian Public Service Commission  
Central Land Council  
Department of the Prime Minister and Cabinet  
Indigenous Business Australia  
Indigenous Land Corporation  
National Australia Day Council Ltd (company limited by guarantee)  
Northern Land Council  
Outback Stores Pty Ltd  
Tiwi Land Council  
Torres Strait Regional Authority  
Office of National Assessments  
Office of the Commonwealth Ombudsman  
Office of the Inspector-General of Intelligence and Security  
Office of the Official Secretary to the Governor-General  
Wreck Bay Aboriginal Community Council

*Public non-financial corporations*

Voyages Indigenous Tourism Australia Pty Ltd

Social Services Portfolio

*General government*

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

Human Services Portfolio

*General government*

Department of Human Services

*Public non-financial corporations*

Australian Hearing Services (Australian Hearing)

Treasury Portfolio

*General government*

Australian Bureau of Statistics  
Australian Competition and Consumer Commission  
Australian Office of Financial Management  
Australian Prudential Regulation Authority  
Australian Securities and Investments Commission  
Australian Taxation Office  
Clean Energy Finance Corporation  
Commonwealth Grants Commission  
Corporations and Markets Advisory Committee  
Department of the Treasury  
Inspector-General of Taxation  
National Competition Council  
Office of the Auditing and Assurance Standards Board  
Office of the Australian Accounting Standards Board  
Productivity Commission  
Royal Australian Mint

*Public financial corporations*

Australian Reinsurance Pool Corporation  
Reserve Bank of Australia

*Other investments*

Australian National University  
Ceramic Fuel Cells  
Clarity Pharmaceuticals Pty Ltd  
Crace Developments Pty Ltd  
Law Courts Ltd  
Murray-Darling Freshwater Research Centre  
NEPC Service Corporation  
PSMA Australia Ltd  
Snowy Hydro Ltd  
Yarra Community Housing Ltd

*Notes to the financial statements*

Entity changes during 2013-14

*Entities no longer consolidated*

Aged Care Standards and Accreditation Agency Ltd replaced by the Australian Aged Care Quality Agency (1 January 2014)

Australian Agency for International Development (AusAID) integrated into the Department of Foreign Affairs and Trade (1 November 2013)

Australian National Preventive Health Agency (30 June 2014)

Department of Education, Employment and Workplace Relations (30 September 2013)

Department of Regional Australia, Local Government, Arts and Sport  
(30 September 2013)

Department of Resources, Energy and Tourism (30 September 2013)

Family Court of Australia and Federal Circuit Court of Australia integrated into the Family Court and Federal Circuit Court (1 July 2013)

Sugar Research and Development Corporation (30 September 2013)

*Entities newly controlled/established in 2013-14*

Asbestos Safety and Eradication Agency (1 July 2013)

Australian Aged Care Quality Agency (1 January 2014)

Department of Education (1 October 2013)

Department of Employment (1 October 2013)

Family Court and Federal Circuit Court (1 July 2013)

National Portrait Gallery of Australia (1 July 2013)

*Entities with name changes*

Australian Financial Security Authority  
(previously Insolvency and Trust Services Australia)

Department of Agriculture (previously Department of Agriculture, Fisheries and Forestry)

Department of Communications (previously Department of Broadband, Communications and the Digital Economy)

Department of Environment (previously Department of Sustainability, Environment, Water, Population and Communities)

Department of Finance (previously Department of Finance and Deregulation)

Department of Health (Department of Health and Ageing)

Department of Immigration and Border Protection  
(previously Department of Immigration and Citizenship)

Department of Industry (previously Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education)

Department of Infrastructure and Regional Development  
(previously Department of Infrastructure and Transport)

Department of Social Services (previously Department of Families, Housing, Community Services and Indigenous Affairs)

## **Note 46: Glossary**

### Key technical terms

#### *Balance sheet*

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

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

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

#### *Fiscal balance*

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

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

#### *Net financial liabilities*

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

#### *Net financial worth*

Net financial worth is equal to financial assets minus liabilities. It is a broader measure than net debt in that it incorporates provisions made (such as superannuation, but

### *Notes to the financial statements*

excluding depreciation and bad debts) as well as holdings of equity. Net financial worth includes all classes of financial assets and liabilities, only some of which are included in net debt.

#### *Net lending/borrowing*

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

#### *Net other economic flows*

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

#### *Net operating balance*

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

#### *Net result from transactions — net operating balance*

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

#### *Net worth*

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

#### *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.

Expenses by function

*General public services*

Include legislative and executive affairs, financial and fiscal affairs, foreign affairs, foreign economic aid, general research, general economic and social planning and 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 clinics and practitioners, dental clinics and practitioners, maternal and infant health, ambulance services, medical benefits, school and other public health services, pharmaceuticals, medical aids and appliances, and health research.

*Social security and welfare*

Includes sickness benefits, benefits to ex-servicemen and their dependants, invalid and other permanent disablement benefits, old age benefits, widows, deserted wives, divorcees and orphans benefits, unemployment benefits, family and child benefits, sole parent benefits, family and child welfare, and aged and handicapped welfare.

*Notes to the financial statements*

*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 communications*

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.





