

Commonwealth of Australia

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019

CIRCULATED BY

SENATOR THE HONOURABLE MATHIAS CORMANN
MINISTER FOR FINANCE
OF THE COMMONWEALTH OF AUSTRALIA
DECEMBER 2019

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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 2019. The CFS presents the whole of government and general government sector (GGS) financial reports. It consolidates the audited accounts of 189 entities across the public sector.

The CFS has been prepared in accordance with the regulations of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act) and applicable Australian Accounting Standards (AAS), including the requirements of AASB 1049 *Whole of Government and General Government Sector Financial Reporting* (AASB 1049). The CFS shows the results of the Australian Government's financial performance and cash flows for the year ended 30 June 2019 and the Australian Government's financial position as at 30 June 2019.

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

Operating statement

The Australian Government's net operating balance for the year ended 30 June 2019 was a surplus of \$3.3 billion. For the year ended 30 June 2018, the Australian Government reported a net operating balance deficit of \$8.4 billion.

The Australian Government's taxation revenue increased by \$28.9 billion (6.8 per cent) in 2018-19, reflecting an increase in taxation revenue from companies, individuals and sales taxes. Non-taxation revenue increased by \$11.2 billion (27.4 per cent).

The Australian Government's expenses increased by \$28.5 billion (6.0 per cent) in 2018-19, primarily driven by an increase in the supply of goods and services and grants expenses.

Further, the Australian Government's total net acquisition of non-financial assets increased by \$5.0 billion (74.6 per cent) from \$6.7 billion for 2017-18 to \$11.7 billion for 2018-19.

The Australian Government's fiscal balance deficit improved by \$6.6 billion (43.9 per cent) from \$15.1 billion for 2017-18 to \$8.5 billion for 2018-19, primarily as a result of increased revenue.

Balance sheet

The Australian Government's net worth was negative \$544.6 billion as at 30 June 2019. As at 30 June 2018, the Australian Government's net worth was negative \$417.7 billion.

Preface

The Australian Government's financial assets increased by \$32.8 billion (6.6 per cent) for the year ended 30 June 2019. Total non-financial assets increased by \$15.2 billion (7.8 per cent).

The Australian Government's liabilities increased by \$174.9 billion (15.8 per cent) to \$1,281.9 billion largely due to the impact of the decrease in the long-term government bond rate used to discount expected future superannuation payments. Interest bearing liabilities increased by \$52.9 billion (8.3 per cent), driven by a \$51.6 billion increase in the issuance volume and market value of Australian Government Securities.

Cash flows

The Australian Government recorded a cash deficit of \$0.7 billion for the year ended 30 June 2019 from operating activities and investing activities in non-financial assets. The cash at the end of the year was \$8.3 billion.

Contingent liabilities, contingent assets and risks

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

Final Budget Outcome

Under the *Charter of Budget Honesty Act 1998* (the Charter), the Australian Government is also required to publicly release and table a Final Budget Outcome (FBO) report no later than three months after the end of the financial year. The FBO for the 2018 19 financial year was released by the Treasurer and me on 19 September 2019, presenting the fiscal outcomes for the Australian Government general government sector. Under the Charter, the FBO must be based on external reporting standards, including AAS and the concepts and classifications set out in the Australian Bureau of Statistics' Government Finance Statistics, with any departures from those standards to be disclosed.

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

A handwritten signature in blue ink, appearing to read "AL".

Senator the Hon Mathias Cormann
Minister for Finance

**COMMENTARY ON THE
CONSOLIDATED FINANCIAL STATEMENTS**

INTRODUCTION

The 2018-19 Consolidated Financial Statements (CFS) for the Australian Government present the whole of government and general government sector (GGS) financial reports and are prepared in accordance with AASB 1049 *Whole of Government and General Government Sector Financial Reporting* (AASB 1049). They are required by section 48 of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act).

The CFS includes the consolidated results for all Australian Government controlled entities as well as disaggregated information on the sectors of government (GGS, public non-financial corporations (PNFC) and public financial corporations (PFC))¹. Unless explicitly stated, the financial results reported in this commentary comprise consolidated amounts for the Australian Government as a whole, inclusive of the GGS, and PNFC and PFC sectors². The GGS results in the 2018-19 CFS materially align with the 2018-19 Final Budget Outcome.

AT A GLANCE

Table 1: Financial results for the year ended 30 June 2019³

	2018-19 \$b	2017-18 \$b	Change \$b
Revenue	508.0	467.9	40.1
Expenses	504.7	476.2	28.5
Net operating balance^(a)	3.3	(8.4)	11.6
Per cent of GDP	0.2	0.5	
Net capital investment	11.7	6.7	5.0
Fiscal balance^(b)	(8.5)	(15.1)	6.6
Per cent of GDP	0.4	0.8	
Total assets	737.3	689.3	48.0
Total liabilities	1,281.9	1,107.1	174.9
Net worth^(c)	(544.6)	(417.7)	(126.9)
Per cent of GDP	28.0	22.6	
Net cash flows from operating activities	21.1	4.4	16.6
Net cash flows from investments in non-financial assets	(21.8)	(18.2)	(3.6)
Cash surplus/(deficit)	(0.7)	(13.7)	13.0

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

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

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

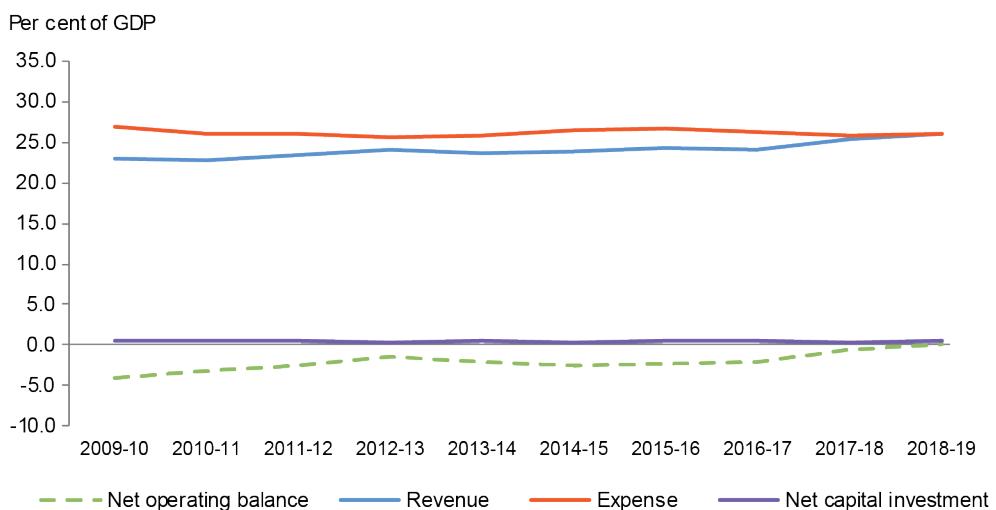
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- 1 The institutional structure of the public sector is explained in Note 1 of the 2018-19 CFS. Note 15 of the 2018-19 CFS provides the list of Australian Government controlled reporting entities, including their sectoral classification.
 - 2 The balances and movements detailed in the commentary have been rounded to the nearest tenth of a billion. Discrepancies between totals and sums of components are due to rounding.
 - 3 The 2017-18 comparatives include adjustments to assets (\$0.5 billion increase) and liabilities (\$0.4 billion increase). Refer to Note 1.5 of the 2018-19 CFS for further information.

Operating statement (net operating balance)

Table 2: Operating statement

	2018-19 \$b	2017-18 \$b	Change \$b	Change %
Revenue	508.0	467.9	40.1	8.6
Per cent of GDP	26.1	25.3		0.8
Expenses	504.7	476.2	28.5	6.0
Per cent of GDP	25.9	25.8		0.1
Net operating balance	3.3	(8.4)	11.6	>100.0
Per cent of GDP	0.2	0.5		0.7
Net capital investment	11.7	6.7	5.0	74.6
Per cent of GDP	0.6	0.4		0.2
Fiscal balance	(8.5)	(15.1)	6.6	43.9
Per cent of GDP	0.4	0.8		0.4

Chart 1: Operating statement (per cent of GDP) since 2009-10



Balance sheet (net worth)

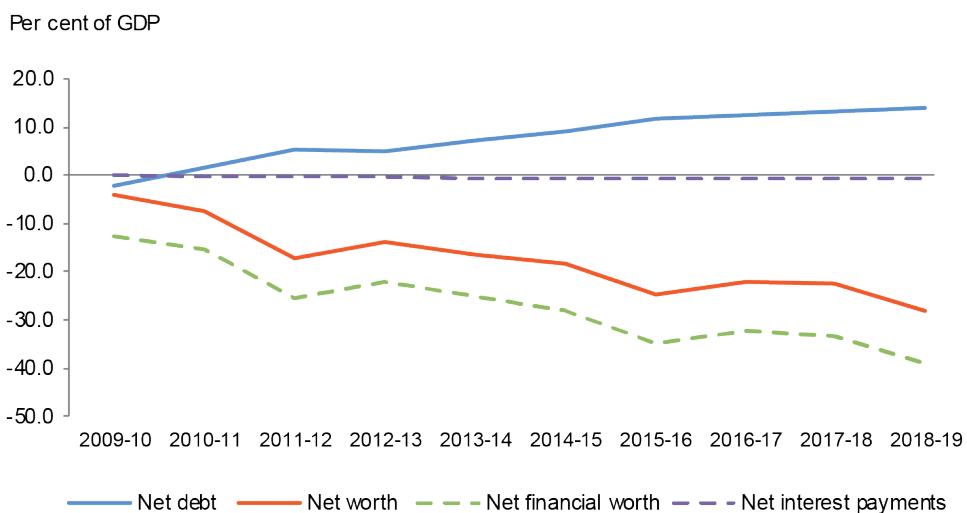
Table 3: Balance sheet

	2018-19 \$b	2017-18 \$b	Change \$b	Change %
Financial assets	526.8	493.9	32.8	6.6
Non-financial assets	210.6	195.4	15.2	7.8
Total assets	737.3	689.3	48.0	7.0
Total liabilities	1,281.9	1,107.1	174.9	15.8
Net worth	(544.6)	(417.7)	(126.9)	30.4
Per cent of GDP	28.0	22.6		5.4
Net financial worth^(a)	(755.2)	(613.1)	(142.0)	23.2
Per cent of GDP	38.8	33.2		5.6
Net debt^(b)	274.0	241.8	32.3	13.3
Per cent of GDP	14.1	13.1		1.0
Net interest payments	(14.2)	(12.2)	(2.0)	16.4
Per cent of GDP	0.7	0.7		0.1

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

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

Chart 2: Balance sheet (per cent of GDP) since 2009-10



DISCUSSION AND ANALYSIS

Net operating balance

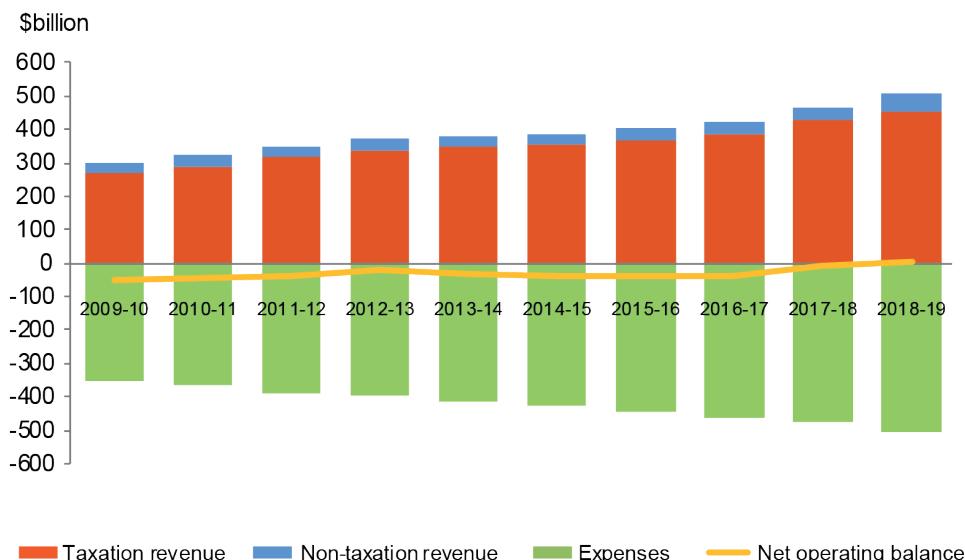
The Australian Government's net operating balance was a surplus of \$3.3 billion for the year ended 30 June 2019, an improvement of \$11.6 billion against the 30 June 2018 result.

Table 4: Operating statement

	2018-19 \$b	2017-18 \$b	Change \$b	Change %
Revenue	508.0	467.9	40.1	8.6
Expenses	504.7	476.2	28.5	6.0
Net operating balance	3.3	(8.4)	11.6	>100.0
Less Net acquisitions of non-financial assets	11.7	6.7	5.0	74.6
Fiscal balance	(8.5)	(15.1)	6.6	43.9

Chart 3 below shows the composition of the Australian Government's net operating balance since 2009-10.

Chart 3: Operating statement since 2009-10



Revenue

The Australian Government's revenue increased by \$40.1 billion (8.6 per cent) in 2018-19 to \$508.0 billion.

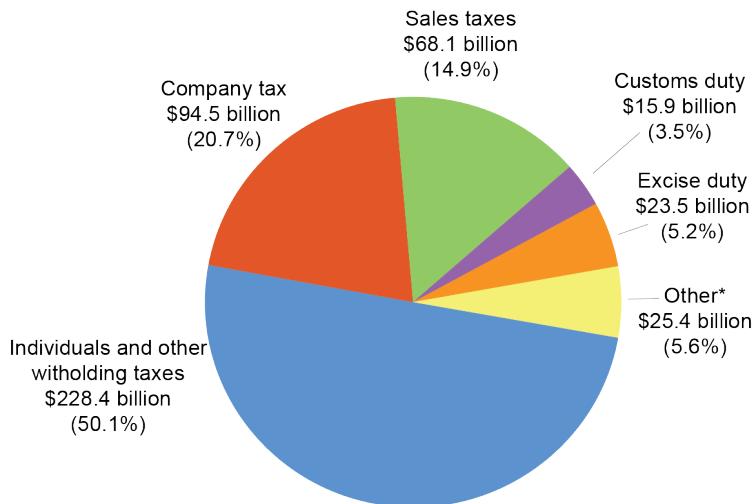
Table 5: Revenue

	2018-19 \$b	2017-18 \$b	Change \$b	Change %
Taxation revenue	455.9	427.0	28.9	6.8
Non-taxation revenue	52.1	40.9	11.2	27.4
Total revenue	508.0	467.9	40.1	8.6

Taxation revenue

The Australian Government's total taxation revenue for the year ended 30 June 2019 was \$455.9 billion. The composition of taxation revenue is shown in Chart 4 below.

Chart 4: Composition of taxation revenue



* Other includes: Superannuation funds taxes (\$10.9 billion); Other indirect taxation (\$9.4 billion); Fringe benefits tax (\$3.9 billion); and Resource rent taxes (\$1.2 billion).

Commentary on the financial statements

Taxation revenue increased by \$28.9 billion (6.8 per cent) in comparison to 2017-18. The key changes were:

- an increase of \$17.1 billion (8.1 per cent) in **individuals and other withholding taxes** consistent with strong employment growth;
- an increase of \$8.8 billion (10.3 per cent) in **company tax** as a result of higher corporate profitability; and
- an increase of \$1.1 billion (1.7 per cent) in **sales taxes**, predominantly driven by an increase in the goods and services tax (GST), consistent with growth in consumption subject to GST.

Refer to Note 2A of the 2018-19 CFS for further information.

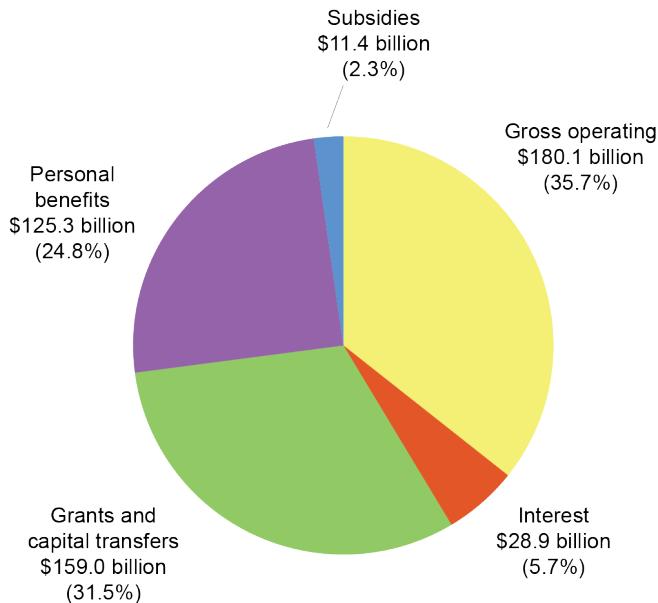
Non-taxation revenue

The Australian Government's total non-taxation revenue for the year ended 30 June 2019 was \$52.1 billion. For more information, refer to Notes 2B to 2D of the 2018-19 CFS.

Expenses

The Australian Government's total expenses for the year ended 30 June 2019 were \$504.7 billion. The composition of expenses is shown in Chart 5 below.

Chart 5: Composition of expenses



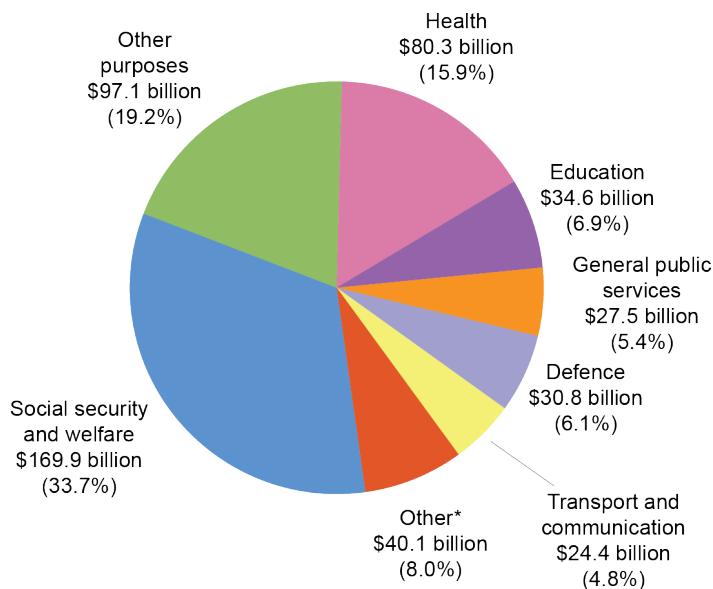
The Australian Government's total expenses increased by \$28.5 billion (6.0 per cent) in comparison to 2017-18. The key changes were:

- an increase in **gross operating expenses** of \$21.9 billion (13.8 per cent). This was driven by an increase of \$17.4 billion in the supply of goods and services expense, mainly due to:
 - an increase in benefits to households in goods and services of \$11.3 billion, primarily relating to an increase in participants under the National Disability Insurance Scheme (\$5.0 billion), the reclassification of the child care subsidies program (\$3.8 billion), aged care services (\$1.3 billion) and medical benefits (\$1.1 billion);
 - an increase in general supply of goods and services expenses of \$4.2 billion, which in part is driven by the inclusion of expenditure for Snowy Hydro Limited (\$1.8 billion) for the first time in 2018-19; and
- an increase of \$7.4 billion (4.9 per cent) in **capital and current grants**, primarily as a result of increased grants to state and territory governments (\$6.9 billion).

Commentary on the financial statements

Chart 6 below provides a presentation of total expenses based on how the Australian Government allocated resources across the range of policy areas. The chart highlights the relative cost of each function for 2018-19.

Chart 6: Total expenses by function



* Other includes: Fuel and energy (\$10.3 billion); Other economic affairs (\$9.8 billion); Public order and safety (\$5.8 billion); Housing and community amenities (\$5.1 billion); Recreation and culture (\$4.0 billion); Agriculture, forestry and fishing (\$2.6 billion); and Mining, manufacturing and construction (\$2.6 billion).

Refer to Note 3 of the 2018-19 CFS for further information on expenses.

Net worth

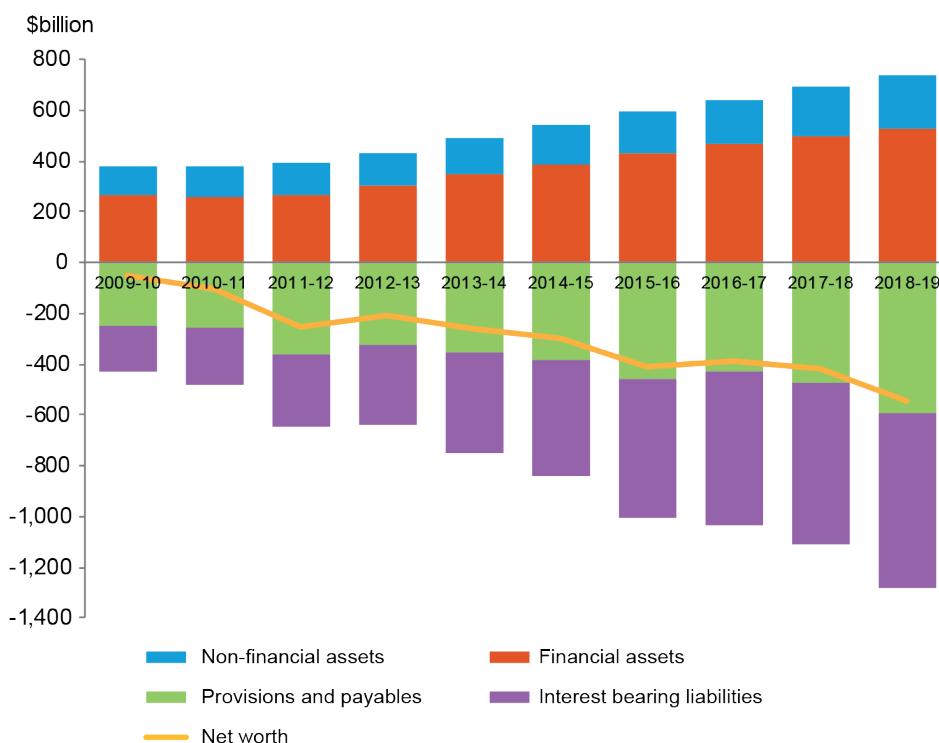
The Australian Government's net worth declined by \$126.9 billion in 2018-19 to a negative net worth of \$544.6 billion as at 30 June 2019.

Table 6: Balance sheet

	2018-19 \$b	2017-18 \$b	Change \$b	Change %
Financial assets	526.8	493.9	32.8	6.6
Non-financial assets	210.6	195.4	15.2	7.8
Total assets	737.3	689.3	48.0	7.0
Interest bearing liabilities	689.1	636.3	52.9	8.3
Provisions and payables	592.8	470.8	122.0	25.9
Total liabilities	1,281.9	1,107.1	174.9	15.8
Net worth	(544.6)	(417.7)	(126.9)	30.4

Chart 7 below shows the composition of the Australian Government's financial position since 2009-10.

Chart 7: Balance sheet since 2009-10



Assets

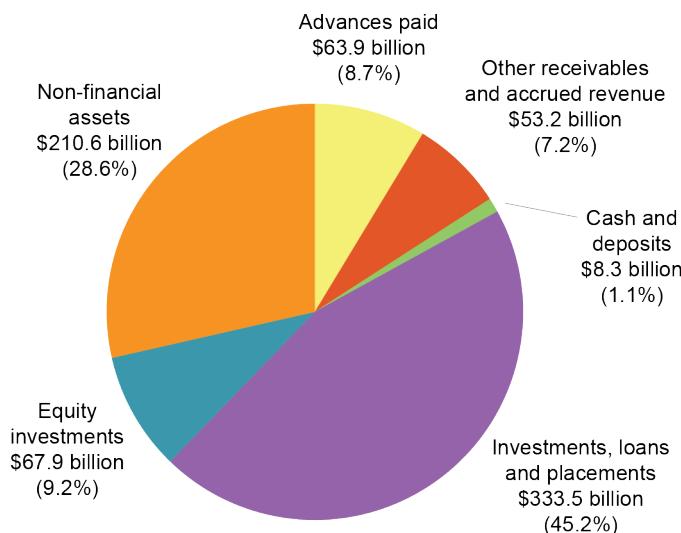
The Australian Government's total assets as at 30 June 2019 were \$737.3 billion.

Table 7: Assets

	2018-19 \$b	2017-18 \$b	Change \$b	Change %
Financial assets				
Cash and deposits	8.3	6.3	1.9	30.6
Advances paid	63.9	51.8	12.2	23.5
Other receivables and accrued revenue	53.2	51.1	2.1	4.1
Investments, loans and placements	333.5	325.6	7.8	2.4
Equity investments	67.9	59.1	8.8	14.9
Total financial assets	526.8	493.9	32.8	6.6
Non-financial assets	210.6	195.4	15.2	7.8
Total assets	737.3	689.3	48.0	7.0

The Australian Government's total assets increased by \$48.0 billion (7.0 per cent) since 30 June 2018. The composition of assets is shown in Chart 8 below.

Chart 8: Composition of assets



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

- an increase of \$12.2 billion in **advances paid**, mainly due to an increase in higher education loan recipients and the actuarial revaluation of loans in the Higher Education Loan Program (HELP) scheme;
- an increase of \$8.8 billion in **equity investments**, mainly due to an increase in share investments held by the Future Fund;
- an increase of \$7.8 billion in **investments, loans and placements**, primarily attributed to:
 - an increase in investments held by the Future Fund (\$7.1 billion) and other Australian Government investment funds (\$4.8 billion); and
 - a \$4.6 billion net decrease in securities and foreign exchange holdings held by the Reserve Bank of Australia (RBA);
- an increase of \$2.1 billion in **other receivables and accrued revenue**, primarily driven by an increase in net tax receivables of \$2.5 billion; and
- an increase of \$1.9 billion in **cash and deposits**, which in part reflects the change in cash holdings of the National Disability Insurance Agency.

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

- an increase of \$6.6 billion for **other plant, equipment and infrastructure**, primarily driven by an increase of \$4.9 billion in network assets for the continued investment in the deployment of the National Broadband Network (NBN);
- an increase of \$4.6 billion for **specialist military equipment**, primarily as a result of additions and revaluation adjustments; and
- an increase of \$1.2 billion for **intangibles**, in part driven by the acquisition of water entitlements.

Refer to Note 5 of the 2018-19 CFS for further information on assets.

Liabilities

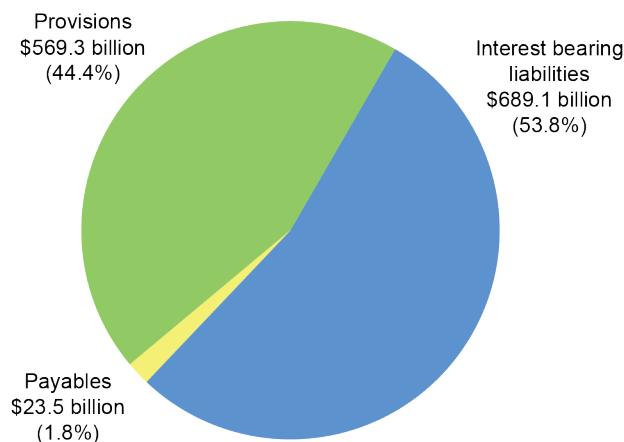
The Australian Government's total liabilities were \$1,281.9 billion as at 30 June 2019.

Table 8: Liabilities

	2018-19 \$b	2017-18 \$b	Change \$b	Change %
Interest bearing liabilities	689.1	636.3	52.9	8.3
Provisions and payables	592.8	470.8	122.0	25.9
Total liabilities	1,281.9	1,107.1	174.9	15.8

The Australian Government's liabilities increased by \$174.9 billion (15.8 per cent) since 30 June 2018. The composition of liabilities is shown in Chart 9 below.

Chart 9: Composition of liabilities



The increase of \$52.9 billion in **interest bearing liabilities** was primarily as a result of an increase of \$51.6 billion in the market value and issuance volume of Australian Government Securities.

The increase in **provisions and payables** of \$122.0 billion was primarily as a result of:

- an increase of \$102.1 billion in the superannuation liability, predominantly due to the decrease in the long-term government bond rate used to discount expected future superannuation payments (refer to Note 10C of the 2018-19 CFS for further information);
- an increase of \$10.1 billion relating to the actuarial revaluation of other employee liabilities and other provisions for military compensation; and
- an increase of \$4.5 billion in Australian currency (notes) on issue.

Note 6 of 2018-19 CFS provides further information on liabilities.

Cash flows

The Australian Government's cash balance was \$8.3 billion at 30 June 2019. For the year ended 30 June 2019, the Australian Government recorded a cash deficit of \$0.7 billion, an improvement of \$13.0 billion compared to a cash deficit of \$13.7 billion for 2017-18.

Table 9: Cash flows

	2018-19 \$b	2017-18 \$b	Change \$b	Change %
Cash receipts				
Operating activities	499.7	456.8	43.0	9.4
Investing activities in non-financial assets	0.8	1.7	(0.9)	51.8
Investing activities in financial assets for policy purposes	4.1	5.4	(1.4)	25.4
Financing activities (net)	18.9	38.3	(19.4)	50.6
Total cash receipts	523.5	502.1	21.4	4.3
Cash payments				
Operating activities	478.7	452.3	(26.3)	5.8
Investing activities in non-financial assets	22.6	19.8	(2.8)	13.9
Investing activities in financial assets for policy purposes	10.4	17.5	7.2	40.8
Investing activities in financial assets for liquidity purposes (net)	4.1	6.2	2.1	34.4
Financing activities (net)	5.9	6.2	0.3	5.1
Total cash payments	521.6	502.1	(19.5)	3.9
Net movement in cash	1.9	0.0	1.9	>100.0
Cash at beginning of the year	6.3	6.3	0.0	0.7
Cash at end of year	8.3	6.3	1.9	30.6
Key fiscal aggregate				
Net cash flows from operating activities	21.1	4.4	16.6	>100.0
Net cash flows from investments in non-financial assets	(21.8)	(18.2)	(3.6)	19.9
Cash surplus/(deficit)	(0.7)	(13.7)	13.0	94.8

Receipts and payments

The following charts provide a detailed breakdown of Australian Government receipts and payments for 2018-19, showing the relative composition of each dollar received and paid.

Chart 10: Composition of each dollar of cash received in 2018-19

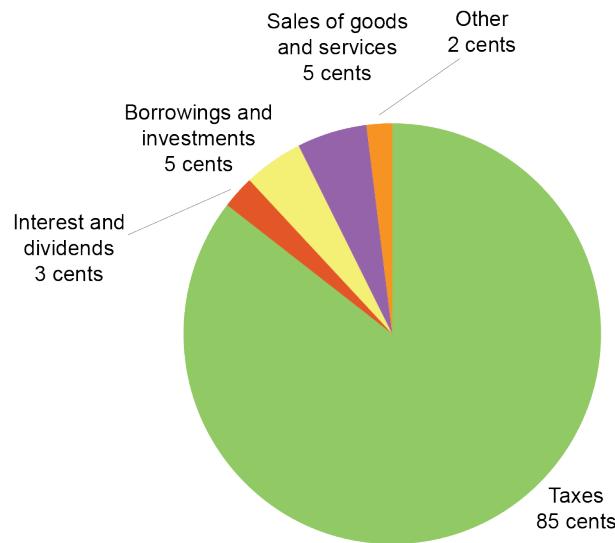
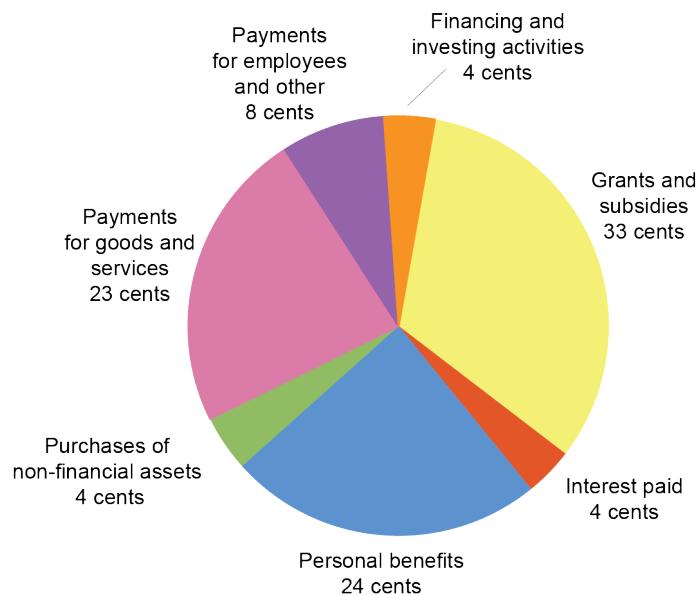


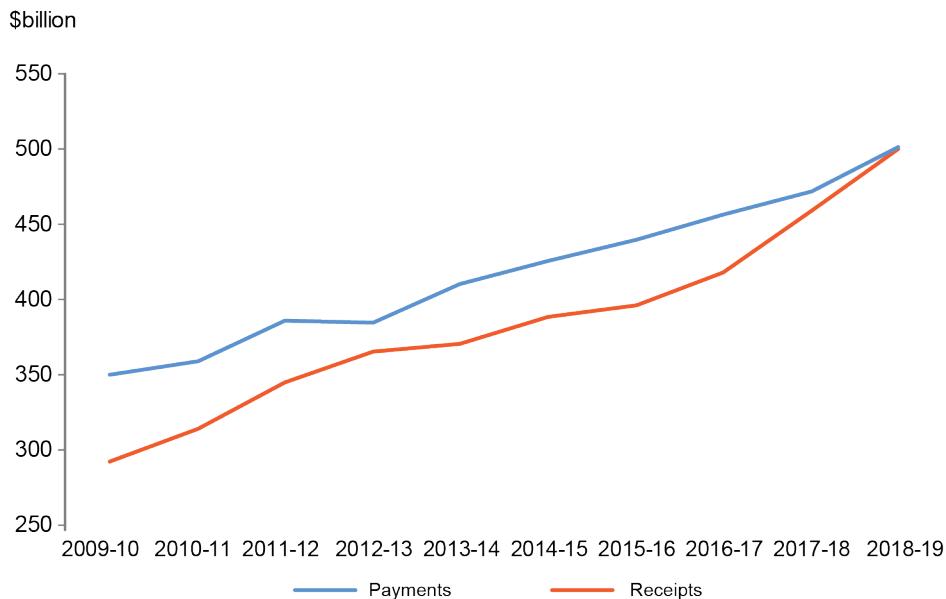
Chart 11: Composition of each dollar of cash paid in 2018-19



Commentary on the financial statements

Chart 12 provides the trend of the Australian Government's receipts and payments for operating activities and the sales and purchases of non-financial assets since 2009-10.

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



APPENDIX A

PREVIOUS YEARS

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

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

LINKS TO OTHER PUBLICATIONS

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

2018-19 Final Budget Outcome

The 2018-19 Final Budget Outcome (FBO) was prepared in a manner consistent with the *Charter of Budget Honesty Act 1998* (the Charter). The Charter requires that the Government provide the FBO no later than three months after the end of the financial year. Consistent with these requirements, the FBO encompasses Australian Government GGS fiscal outcomes for the 2018-19 financial year and is based on external reporting standards.

The 2018-19 FBO was released on the 19 September 2019 and is available on the Australian Government website at:
<https://www.budget.gov.au/2019-20/content/fbo/>.

Australian Government Monthly Financial Statements

The Australian Government GGS monthly financial statements (MFS) are prepared on a basis consistent with the Budget as required under section 47 of the PGPA Act. The statements are prepared in accordance with AASB 1049.

The Australian Government GGS MFS are available on the website of the Minister for Finance as well as the Department of Finance website:
<https://www.finance.gov.au/publications/commonwealth-monthly-financial-statements/> and <http://www.financeminister.gov.au/media-releases>.

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

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

The Budget Strategy and Outlook – Budget Paper No.1 – 2018-19, the Mid-Year Economic and Fiscal Outlook 2018-19 and the Budget Strategy and Outlook – Budget Paper No.1 – 2019-20 have been prepared in accordance with the Charter.

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

Tax Benchmarks and Variations Statement 2018

The Tax Benchmarks and Variations Statement provides details of concessions, benefits, incentives and charges provided through the tax system (tax expenditures) to taxpayers by the Australian Government. Information is published on the Treasury website at:

<https://www.treasury.gov.au/publication/p2019-357183>.

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



INDEPENDENT AUDITOR'S REPORT

To the Minister for Finance

Opinion

In my opinion, the Consolidated Financial Statements which include the Australian Government and the General Government Sector (GGS) Financial Reports for the year ended 30 June 2019:

- (a) comply with Australian Accounting Standards; and
- (b) present fairly the financial position of the Australian Government and the General Government Sector as at 30 June 2019 and their financial performance and cash flows for the year then ended.

The Consolidated Financial Statements, which I have audited, comprise the following statements as at 30 June 2019 and for the year then ended:

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

Basis for opinion

I conducted my audit in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the Australian Government and the General Government Sector in accordance with the relevant ethical requirements for financial statement audits conducted by me. These include the relevant independence requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) to the extent that they are not in conflict with the *Auditor-General Act 1997*. I have also fulfilled my other responsibilities in accordance with the Code. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Key audit matters

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

Key audit matter	How the audit addressed the matter
Completeness and accuracy of taxation revenue	<p>To address the key audit matter, I:</p> <ul style="list-style-type: none"> evaluated the design and effectiveness of the compliance risk management processes by benchmarking the compliance framework against the Organisation for Economic Cooperation and Development's best practice principles of what constitutes an effective taxation compliance program;
<p><i>Refer to Note 2A 'Taxation Revenue'</i></p> <p>Taxation revenue is significant to the Australian Government operating statements (GGS: \$456.2 billion, Australian Government: \$455.9 billion for the year ended 30 June 2019).</p> <p>The measurement and recognition of taxation revenue is dependent on information provided by taxpayers in a self-assessment and voluntary compliance taxation regime. Ineffective design and implementation of the compliance taxation regime elevates the risk that invalid taxation returns are not detected and corrected resulting in an understatement of taxation revenue.</p>	<ul style="list-style-type: none"> assessed the risk identification, risk assessment and risk prioritisation processes for a selection of risks. In performing my procedures I also assessed the risk treatment strategies and implementation and assessed the process of monitoring performance and evaluating compliance outcomes on a sample basis at an enterprise level; assessed the effectiveness of the taxation estimate process controls and the associated validation procedures together with the completeness, relevance and accuracy of data used in developing taxation revenue estimates; assessed the reasonableness of the interpretation and analysis of data used for the material estimates and recalculated material revenue estimates at year-end; and evaluated the evidence to support the judgements made in relation to key estimates of revenue at year-end.
<p>The Australian Government uses various methodologies to calculate estimates for taxation revenues. Estimation techniques have inherent risks of error and rely on assumptions such as wage growth, gross domestic product and historical information.</p> <p>The completeness and accuracy of taxation revenue is a key audit matter due to complexity in determining the revenues due under self-assessment and voluntary compliance regimes. Significant professional judgement is required in the application of methodologies and assumptions (including about volatility of economic conditions that increase the uncertainty of the estimates).</p>	
Valuation of Loans and Receivables <p><i>Refer to Note 5A 'Advances paid and receivables'</i></p> <p>Loans and receivables are significant to the Australian Government balance sheet at 30 June 2019 (advances paid - GGS: \$75.4 billion, Australian Government: \$63.9 billion; receivables - GGS: \$52.8 billion, Australian Government: \$53.2 billion).</p> <p>Advances paid reflect loans provided by the Government, including student loans under the Higher Education Loan Program (HELP). Student loans are recognised at fair value, subject to an actuarial assessment which takes account of the uncertainty as the loan repayments are contingent on reaching income thresholds. At 30 June 2019 there is a fair value adjustment of \$15.7 billion against student</p>	<p>How the audit addressed the matter</p> <p>To address the key audit matter, I:</p> <ul style="list-style-type: none"> evaluated the design and effectiveness of key actuarial controls, including data reconciliations and the review and approval of the estimate; tested the completeness, accuracy and appropriateness of the source information used in the estimates; assessed the reasonableness of key actuarial assumptions, including discount rates, against accepted industry benchmarks; and examined the impairment provision balance and assessed the reasonableness

loans, reflecting expected non-repayment.	of the impairment rate applied.
Receivables reflect amounts due from taxation, personal benefits and other receivables. These assets are assessed for recoverability and impaired where they are deemed not recoverable. Impairment provisions of \$23.9 billion have been recognised at 30 June 2019.	
The valuation of loans and receivables is a key audit matter due to the high level of the judgement required as a result of the inherent complexity and uncertainty in estimating the recoverability and the sensitivity of these balances to changes in assumptions.	
Key audit matter	How the audit addressed the matter
Valuation of Collective investment vehicles	
<i>Refer to Note 5B 'Investments, loans and placements'</i>	
The balance of collective investment vehicles is significant to the Australian Government balance sheet (GGS: \$76.6 billion, Australian Government: \$76.6 billion as at 30 June 2019).	To address the key audit matter, I assessed, on a sample basis, the valuation of indirectly held property, infrastructure and timberland investments as at 30 June 2019. To do so I:
Collective investment vehicles are holdings of a diverse range of asset categories including private equity investments, hedge funds, direct and indirect property, infrastructure and timberland assets. Valuation techniques vary depending on the particular asset category and holding.	<ul style="list-style-type: none"> • evaluated the qualifications, competence and objectivity of the valuation expert used by management; • tested the valuation models used including the reasonableness of key assumptions regarding growth rates, discount rates and multiples applied to earnings within the models; and • performed a cross-check between management's valuation and the valuation applied by comparable entities, including the underlying assumptions.
To value collective investment vehicles the Australian Government uses valuation experts largely for property, infrastructure and timberland investments while capital account statements received from investment managers, supported by audited financial statements, are used to value other collective investment vehicles.	To assess the valuation of all other collective investment vehicles as at 30 June 2019, on a sample basis, I:
I consider the valuation of collective investment vehicles to be a key audit matter due to the size of the investments, the inherent subjectivity and significant judgements and estimates required where market data is not available to determine the fair value of these investments.	<ul style="list-style-type: none"> • agreed the fair value to capital account statements received from the underlying investment manager; • obtained audited financial statements of each underlying collective investment as at 30 June 2019, where available, and agreed the audited net asset value to the capital account statements; • where 30 June 2019 audited financial statements were unavailable, investigated significant movements from the most recent set of audited financial statements; and • performed an assessment of the audited financial statements of the collective investment vehicle which included

considering the regulatory framework under which the financial statements were prepared, the accounting policies adopted and evaluating the qualification, competence and objectivity of the audit firm performing the audit and the opinion provided.

Key audit matter

Valuation of Non-Financial Assets

The Australian Government has non-financial assets of \$210.6 billion (GGS: \$155.3 billion) as at 30 June 2019.

The valuation of specialist military equipment and other plant, equipment and infrastructure assets requires significant judgement due to the uncertainties inherent in the valuation of these significant physical assets.

Specialist Military Equipment

Refer to Note 5D 'Specialist Military Equipment'

The balance of specialist military equipment is significant to the Australian Government balance sheet (GGS: \$66.6 billion, Australian Government: \$66.6 billion as at 30 June 2019).

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

This is a key audit matter because measurement of specialist military equipment at fair value involves:

- a high degree of judgement applied by management due to the highly specialised nature of these assets; and
- subjectivity in the valuation assessment due to the difficulty in obtaining the replacement costs of assets with a similar capability in the absence of an active market, the selection and application of appropriate indices, the determination and assessment of appropriate useful lives, and the identification of indicators of impairment.

How the audit addressed the matter

To address the key audit matter, I:

- assessed whether the selection of the method for determining fair value was appropriate for each class of specialist military equipment;
- assessed the competency and objectivity of the valuation subject matter experts;
- tested the completeness and accuracy of data used in the year-end valuation process;
- assessed whether the useful lives applied to specialist military equipment (for the calculation of depreciation) were consistent with other available information such as expected withdrawal dates for these assets;
- tested the accuracy of a sample of cost attribution models and approvals of cost allocations related to specialist military equipment under construction;
- assessed whether the assumptions and judgements used to determine the impairment of specialist military equipment is consistent with other available information such as changes to planned capability and unscheduled repairs and maintenance; and
- inspected a sample of specialist military equipment assets for indicators of impairment.

Other Plant, Equipment and Infrastructure

Refer to Note 5D ‘Other Plant, Equipment and Infrastructure’

The balance of other plant, equipment and infrastructure is significant to the Australian Government balance sheet (GGS: \$15.4 billion, Australian Government: \$61.3 billion as at 30 June 2019).

Other plant, equipment and infrastructure is made up of a large number of assets held by the Australian Government including some large infrastructure holdings. In particular large assets that are based on differing risk profiles and valuation methodologies are held by entities such as the NBN Co Ltd and Snowy Hydro Limited.

This is a key audit matter because measurement of other plant, equipment and infrastructure at fair value involves:

- a high degree of judgement applied by management due to the highly specialised nature of the items and the emergence of new technologies; and
- subjectivity in the valuation assessment, including the selection of the valuation methodology and key assumptions such as discount rates and growth rates.

Key audit matter

Valuation of superannuation liability

Refer to Note 6F ‘Superannuation liability’

The balance of superannuation liability is significant to the Australian Government balance sheet (GGS: \$415.3 billion, Australian Government: \$416.0 billion superannuation liability as at 30 June 2019).

The superannuation liability represents retirement and death benefits for Commonwealth and Defence Force employees, based on service to date.

The valuation of the superannuation liability is a key audit matter due to the measurement of the liabilities being complex, requiring significant judgement and estimation in the selection of long-term assumptions, including the salary growth and discount rates, to which the valuation of the superannuation liability is highly sensitive.

To address the key audit matter, I:

- assessed the appropriateness of the approach used to measure fair value for each type of asset;
- assessed the significant judgements made by management in determining fair value;
- assessed the impact of key technological advances and economic obsolescence on fair value calculations for a sample of asset types; and
- for large high risk assets, I performed a sensitivity analysis by varying factors such as discount rates and growth rates to develop a range of reasonable valuation outcomes.

How the audit addressed the matter

To address the key audit matter, I:

- assessed the design and effectiveness of controls processes over the management of retirement and death benefits including management of members' data used in the valuation model;
- evaluated the reasonableness of the review performed by management's actuary to confirm the integrity of the data used for estimating the superannuation liability;
- evaluated the appropriateness of the methodology and reasonableness of the key assumptions applied in estimating the superannuation liability; and
- assessed the reasonableness of the results of the valuation including the explanations for the changes in the valuation.

Consolidated financial statements

Other information

The Minister for Finance (the Minister) is responsible for the other information. The other information comprises the information included in the Preface and the Commentary on the Consolidated Financial Statements for the year ended 30 June 2019 but does not include the Consolidated Financial Statements and my auditor's report thereon.

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

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

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

Minister's responsibility for the Consolidated Financial Statements

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

In preparing the Consolidated Financial Statements, the Minister is responsible for assessing the ability of the Australian Government and the General Government Sector to continue as a going concern, taking into account whether the entity's operations will cease as a result of an administrative restructure or for any other reason. The Minister is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the assessment indicates that it is not appropriate.

Auditor's responsibilities for the audit of the Consolidated Financial Statements

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

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

- identify and assess the risks of material misstatement of the Consolidated Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Australian Government and the General Government Sector's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Minister;
- conclude on the appropriateness of the Minister's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Australian Government and the General Government Sector's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the Consolidated Financial Statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained

- up to the date of my auditor's report. However, future events or conditions may cause the Australian Government to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the Consolidated Financial Statements, including the disclosures, and whether the Consolidated Financial Statements represent the underlying transactions and events in a manner that achieves fair presentation; and
 - obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Australian Government and the General Government Sector to express an opinion on the Consolidated Financial Statements. I am responsible for the direction, supervision and performance of the Australian Government and the General Government Sector audit. I remain solely responsible for my audit opinion.

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

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

Australian National Audit Office



Grant Hehir
Auditor-General

Canberra

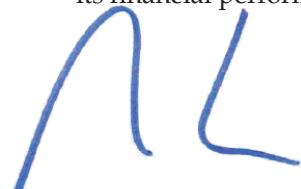
14 November 2019

STATEMENT OF COMPLIANCE

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

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

- (a) comply with Australian Accounting Standards; and
- (b) present fairly the Australian Government's financial position as at 30 June 2019 and its financial performance and cash flows for the year then ended.



Senator the Hon Mathias Cormann
Minister for Finance



November 2019

Australian Government operating statement
for the year ended 30 June 2019

	Note	2019 \$m	2018 \$m
Revenue from transactions			
Taxation revenue	2A	455,891	426,971
Sales of goods and services	2B	27,730	21,114
Interest income	2C	6,026	4,774
Dividend income	2C	7,797	4,247
Other	2D	10,538	10,755
Total revenue		507,982	467,861
Expenses from transactions			
Gross operating expenses			
Wages and salaries	3A	24,337	23,571
Superannuation	3A	9,695	8,359
Depreciation and amortisation	3B	12,666	11,684
Supply of goods and services	3C	124,652	107,218
Other operating expenses	3A	8,726	7,353
Total gross operating expenses		180,076	158,185
Superannuation interest expense	3A	9,444	9,240
Interest expense	3D	19,470	18,996
Current transfers			
Current grants	3E	147,956	139,430
Subsidy expenses		11,363	11,070
Personal benefits		125,324	127,146
Total current transfers		284,643	277,646
Capital transfers			
Mutually agreed write-downs	3E	1,243	1,996
Other capital grants	3E	9,848	10,180
Total capital transfers		11,091	12,176
Total expenses	3F	504,724	476,243
		3,258	(8,382)
Net operating balance			
Other economic flows - included in operating result			
Net write-down of assets (including bad and doubtful debts)	4A	(7,072)	(7,941)
Net gains/(losses) from the sale of assets	4B	5,494	7,220
Net foreign exchange gains/(losses)	4C	2,268	1,982
Net interest on derivatives gains/(losses)	4C	(604)	89
Net fair value gains/(losses)	4C	(32,108)	5,578
Net other gains/(losses)	4C	(10,517)	(2,672)
Operating result(a)		(39,281)	(4,126)
Other economic flows - other non-owner movements in equity			
Items that will not be reclassified to operating result			
Revaluation of non-financial assets	7	3,943	2,728
Actuarial revaluations of superannuation		(92,629)	(25,293)
Other economic revaluations		(8)	62
Items that may be reclassified subsequently to operating result			
Revaluation of equity investments	7	1,084	515
Comprehensive result - total change in net worth		(126,891)	(26,114)
Net operating balance		3,258	(8,382)
less Net acquisition of non-financial assets			
Purchases of non-financial assets		24,170	22,190
<i>less</i> Sales of non-financial assets		420	4,434
<i>less</i> Depreciation and amortisation		12,666	11,684
<i>plus</i> Change in inventories		655	680
<i>plus</i> Other movements in non-financial assets		(1)	(31)
Total net acquisition of non-financial assets		11,738	6,721
Fiscal balance (Net lending/(borrowing))		(8,480)	(15,103)

(a) Includes \$18 million attributable to minority interests (2018: \$4 million).

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

Consolidated financial statements

**Australian Government balance sheet
as at 30 June 2019**

	Note	2019 \$m	2018 \$m
Assets			
<i>Financial assets</i>			
Cash and deposits		8,261	6,325
Advances paid	5A	63,918	51,765
Other receivables and accrued revenue	5A	53,179	51,105
Investments, loans and placements	5B	333,479	325,638
Equity investments	5C	67,919	59,092
<i>Total financial assets</i>		526,756	493,925
<i>Non-financial assets</i>			
Land	5D	13,628	13,316
Buildings	5D	30,026	29,073
Specialist military equipment	5D	66,593	62,020
Other plant, equipment and infrastructure	5D	61,256	54,689
Intangibles	5D	12,731	11,571
Investment property	5D	340	341
Inventories	5E	9,145	8,831
Heritage and cultural assets	5D	11,695	11,619
Other non-financial assets	5F	5,139	3,943
<i>Total non-financial assets</i>		210,553	195,403
Total assets	5G	737,309	689,328
Liabilities			
<i>Interest bearing liabilities</i>			
Deposits held	6A	34,056	33,841
Government securities	6B	619,219	567,661
Loans	6C	16,240	15,181
Other borrowings	6D	10,164	8,807
Other interest bearing liabilities	6E	9,469	10,760
<i>Total interest bearing liabilities</i>		689,148	636,250
<i>Provisions and payables</i>			
Superannuation liability	6F	416,046	313,970
Other employee liabilities	6F	28,090	21,698
Supplier payables	6G	13,152	11,861
Personal benefits payable	6G	2,994	2,758
Subsidies payable	6G	630	602
Grants payable	6G	2,750	3,384
Australian currency on issue	6H	80,024	75,565
Other payables	6G	3,985	3,028
Other provisions	6H	45,123	37,950
<i>Total provisions and payables</i>		592,794	470,816
Total liabilities		1,281,942	1,107,066
Net worth			
Accumulated results		(635,192)	(500,718)
Reserves		90,376	82,869
Minority interests		183	111
Net worth		(544,633)	(417,738)

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

Australian Government cash flow statement
for the year ended 30 June 2019

	Note	2019 \$m	2018 \$m
OPERATING ACTIVITIES			
Operating cash received			
Taxes received		448,256	417,966
Receipts from sales of goods and services		28,041	21,357
Interest receipts		5,270	4,736
Dividend receipts		7,899	4,102
Other receipts		10,277	8,598
Total cash received		499,743	456,759
Operating cash used			
Payments for employees		(34,149)	(32,368)
Payments for goods and services		(120,991)	(105,903)
Grants and subsidies paid		(170,207)	(161,643)
Interest paid		(19,482)	(16,943)
Personal benefits paid		(126,362)	(127,940)
Other payments		(7,474)	(7,527)
Total cash used		(478,665)	(452,324)
Net cash flows from operating activities	8	21,078	4,435
INVESTING ACTIVITIES			
Investments in non-financial assets			
Sales of non-financial assets		799	1,657
Purchases of non-financial assets		(22,592)	(19,838)
Net investments in non-financial assets		(21,793)	(18,181)
Investments in financial assets for policy purposes			
Receipts from policy investments		4,060	5,446
Payments for policy investments(a)		(10,375)	(17,539)
Net investments in financial assets for policy purposes		(6,315)	(12,093)
Investments in financial assets for liquidity purposes			
Net cash from investing activities		(4,075)	(6,213)
FINANCING ACTIVITIES			
Net financing cash received			
Borrowings		12,088	34,481
Other financing		6,803	3,778
Net cash received		18,891	38,259
Net financing cash used			
Distributions paid		(6)	-
Other financing		(5,844)	(6,165)
Net cash used		(5,850)	(6,165)
Net cash flows from financing activities		13,041	32,094
Net (decrease)/increase in cash held		1,936	42
Cash at beginning of year		6,325	6,283
Cash at end of year		8,261	6,325
Key fiscal aggregate			
Net cash flows from operating activities		21,078	4,435
Net cash flows from investments in non-financial assets		(21,793)	(18,181)
Cash surplus/(deficit)		(715)	(13,746)

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

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

Australian Government statement of changes in equity (net worth)
for the year ended 30 June 2019

Item	Accumulated results \$m	Asset revaluation reserve \$m	Reserves					Total net worth \$m
			Foreign currency translation reserve \$m	Investments reserve \$m	Statutory funds reserve \$m	Other reserves \$m	Total contributed equity \$m	
Australian Government								
Adjusted opening balance as at 1 July 2017	(468,738)	50,693	43	14,203	8,514	3,664	77,117	- (391,621)
Dividends provided for or paid	(3)	-	-	-	-	-	-	(3)
Comprehensive result - change in net worth	(29,519)	2,974	16	273	-	142	3,405	- (26,114)
Transfers to/(from)between reserves	(2,348)	(12)	-	(809)	-	3,169	2,348	-
Net worth as at 30 June 2018	(500,608)	53,655	59	13,667	8,514	6,975	82,870	- (417,738)
<i>less:</i> Minority interests	110	-	-	1	-	-	1	- 111
Attributable to the General Government Sector at 30 June 2018	(500,718)	53,655	59	13,666	8,514	6,975	82,869	- (417,849)
Adjustment on initial application of AASB 9	46	(43)	-	-	-	-	(43)	- 3
Adjusted opening balance as at 1 July 2018	(500,562)	53,612	59	13,667	8,514	6,975	82,827	- (417,735)
Dividends provided for or paid	(7)	-	-	-	-	-	-	(7)
Comprehensive result - change in net worth	(131,613)	4,935	14	75	-	(302)	4,722	- (126,891)
Transfers to/(from)between reserves	(2,828)	(109)	-	14	-	2,923	2,828	-
Net worth as at 30 June 2019	(635,010)	58,438	73	13,756	8,514	9,596	90,377	- (544,633)
<i>less:</i> Minority interests	182	-	-	1	-	-	1	- 183
Attributable to the General Government Sector at 30 June 2019	(635,192)	58,438	73	13,755	8,514	9,596	90,376	- (544,816)

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

SECTOR STATEMENTS

Australian Government operating statement by sector – including General Government Sector Financial Report
for the year ended 30 June 2019

Note	General Government		Public non-financial corporations		Public financial corporations		Eliminations and netting(a)		Australian Government		
	2019 \$m	2018 \$m	2019 \$m	2018 \$m	2019 \$m	2018 \$m	2019 \$m	2018 \$m	2019 \$m	2018 \$m	
Revenue from transactions											
Taxation revenue	2A	456,203	426,977	-	-	-	(312)	(6)	455,891	426,971	
Sales of goods and services	2B	12,488	9,770	15,644	11,770	793	(1,195)	(1,160)	27,730	21,114	
Interest income	2C	4,455	3,317	43	63	2,418	(890)	(789)	6,026	4,774	
Dividend income	2C	9,622	5,086	-	9	68	(1,893)	(922)	7,797	4,247	
Other	2D	10,722	10,971	177	476	156	51	(5,17)	10,538	10,755	
Total revenue		493,490	456,121	15,864	12,318	3,435	3,142	(4,807)	(3,720)	507,982	467,861
Expenses from transactions											
Gross operating expenses	3A	19,775	19,214	4,362	4,167	200	190	-	24,337	23,571	
Wages and salaries	3A	9,136	7,791	486	493	82	81	(9)	9,695	8,359	
Superannuation	3B	9,013	8,790	3,578	2,824	75	70	-	12,666	11,684	
Depreciation and amortisation	3C	115,308	100,324	10,282	7,882	467	425	(1,405)	124,652	107,218	
Supply of goods and services	3A	7,893	6,721	745	578	94	59	(6)	8,726	7,353	
Other operating expenses	3A	161,125	142,840	19,453	15,944	918	825	(1,420)	(1,424)	180,076	158,185
Total gross operating expenses		9,444	9,240	-	-	-	-	-	-	9,444	9,240
Superannuation interest expense	3D	18,073	17,811	1,127	702	1,161	1,272	(891)	(789)	19,470	18,996
Interest expense		147,982	139,426	-	-	-	-	(26)	4	147,956	139,430
<i>Current transfers</i>											
Current grants	3E	11,501	11,224	-	-	-	-	(138)	(154)	11,363	11,070
Subsidy expenses	125,324	127,146	-	-	-	-	-	-	-	125,324	127,146
Personal benefits		196	44	44	10	2	2	(206)	(46)	-	-
Total current transfers		284,807	277,796	196	44	10	2	(370)	(196)	284,643	277,646
<i>Capital transfers</i>											
Mutually agreed write-downs	3E	1,243	1,996	-	-	-	-	-	-	1,243	1,996
Other capital grants	3E	9,955	10,597	-	-	-	-	(107)	(417)	9,848	10,180
Total capital transfers		11,198	12,593	-	-	-	-	(107)	(417)	11,091	12,176
Total expenses		484,647	460,280	20,776	16,690	2,089	2,099	(2,788)	(2,826)	504,724	476,243
Net operating balance		8,843	(4,159)	(4,912)	(4,372)	1,346	1,043	(2,019)	(894)	3,258	(8,382)

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

**Australian Government operating statement by sector — including General Government Sector Financial Report
(continued)**
for the year ended 30 June 2019

	Note	General Government		Public non-financial corporations		Public financial corporations		Eliminations and netting(a)		Australian Government	
		2019 \$m	2018 \$m	2019 \$m	2018 \$m	2019 \$m	2018 \$m	2019 \$m	2018 \$m	2019 \$m	2018 \$m
Other economic flows - included in operating result											
Net write-down of assets (including bad and doubtful debts)	4A	(6,415)	(7,810)	(660)	(129)	3	(2)	-	-	(7,072)	(7,941)
Net gains/(losses) from the sale of assets	4B	5,291	7,477	6	2	197	(259)	-	-	5,494	7,220
Net foreign exchange gains/(losses)	4C	(902)	(1,269)	(9)	(9)	3,179	3,260	-	-	2,268	1,982
Net interest on derivatives gains/(losses)	4C	(622)	61	(2)	-	20	28	-	-	(604)	89
Net fair value gains/(losses)	4C	(32,206)	5,521	27	-	71	57	-	-	(32,108)	5,578
Net other gains/(losses)	4C	(10,142)	(2,511)	(26)	34	(349)	(195)	-	-	(10,517)	(2,672)
Operating result(b)		(36,153)	(2,690)	(5,516)	(4,474)	4,467	3,932	(2,019)	(894)	(33,281)	(4,126)
Other economic flows - through equity											
<i>Will not be reclassified to operating result</i>											
Revaluation of non-financial assets	7	1,899	2,420	1,936	232	108	76	-	-	3,943	2,728
Actuarial revaluations of superannuation		(92,165)	(25,685)	(119)	355	(345)	37	-	-	(92,629)	(25,233)
Other economic revaluations	39	39	44	(14)	6,924	38	2	(71)	(6,908)	(8)	62
<i>May be reclassified to operating result</i>											
Revaluation of equity investments	7	1,253	(869)	-	-	846	224	(10,195)	1,160	1,084	515
Comprehensive result		(125,127)	(26,780)	(3,773)	3,037	5,114	4,271	(3,105)	(6,642)	(126,891)	(26,114)
Net operating balance		8,843	(4,159)	(4,912)	(4,372)	1,346	1,043	(2,019)	(894)	(3,258)	(8,382)
less Net acquisition of non-financial assets											
Purchases of non-financial assets	14,688	13,735	9,432	8,402	50	53	-	-	-	24,170	22,190
less Sales of non-financial assets	188	4,260	72	174	161	1	(1)	(1)	(1)	420	4,434
less Depreciation and amortisation	9,013	8,790	3,578	2,824	75	70	-	-	-	12,666	11,684
<i>plus</i> Change in inventories	637	629	23	37	(5)	14	-	-	-	655	680
plus Other movements in non-financial assets	3	(28)	(4)	(4)	-	-	-	-	-	(1)	(31)
Total net acquisition of non-financial assets		6,127	1,286	5,801	5,437	(191)	(4)	1	1	1,1738	6,721
Fiscal balance (Net lending/borrowing)		2,716	(5,445)	(10,713)	(9,809)	1,537	1,047	(2,020)	(896)	1	(15,103)

- (a) The eliminations and netting column includes the elimination of inter-sector transactions and the netting of gains and losses across sectors.
- (b) General Government operating result includes \$18 million attributable to minority interests (2018: \$4 million).

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

**Australian Government balance sheet by sector — including General Government Sector Financial Report
as at 30 June 2019**

Assets	Note	General Government		Public non-financial corporations		Public financial corporations		Eliminations(a)		Australian Government	
		2019 \$m		2018 \$m		2019 \$m		2019 \$m		2019 \$m	
		2019 \$m	2018 \$m	2019 \$m	2018 \$m	2019 \$m	2018 \$m	2019 \$m	2018 \$m	2019 \$m	2018 \$m
<i>Financial assets</i>											
Cash and deposits	5A	8,606	6,863	2,078	1,973	2,234	636	(4,657)	(3,147)	8,261	6,325
Advances paid		75,394	56,058	19	15	2,267	2,037	(13,762)	(6,345)	63,918	51,765
Other receivables and accrued revenue	5A	52,770	50,271	2,138	1,884	88	71	(1,817)	(1,121)	53,179	51,105
Investments, loans and placements	5B	187,947	189,512	923	1,054	182,616	187,750	(38,007)	(52,678)	333,479	325,638
Equity investments	5C	124,444	113,590	171	376	547	464	(57,243)	(55,338)	67,919	59,092
Total financial assets		449,161	416,294	5,329	5,302	187,752	190,958	(115,486)	(118,629)	526,756	493,925
<i>Non-financial assets</i>											
Land	5D	11,834	11,598	1,569	1,535	224	183	1	-	13,628	13,316
Buildings	5D	27,276	26,322	2,325	2,376	427	375	(2)	-	30,026	29,073
Specialist military equipment	5D	66,593	62,020	-	-	-	-	-	-	66,593	62,020
Other plant, equipment and infrastructure	5D	15,391	15,533	45,699	38,975	170	181	(4)	-	61,256	54,689
Intangibles	5D	8,770	7,895	3,813	3,527	97	98	51	51	12,731	11,571
Investment property	5D	160	173	181	168	-	-	(1)	-	340	341
Inventories	5E	8,946	8,645	171	153	28	33	-	-	9,145	8,831
Heritage and cultural assets	5D	11,695	11,619	-	-	6	5	(957)	(938)	11,695	11,619
Tax assets	5F	-	4,609	3,471	548	410	48	155	(66)	5,139	3,943
Other non-financial assets		155,274	147,276	55,257	48,077	1,000	1,030	(978)	(980)	210,553	195,403
Total assets		604,435	563,570	60,586	53,379	188,752	191,958	(116,464)	(119,609)	737,309	689,328
<i>Liabilities</i>											
Interest bearing liabilities	6A	388	381	14	9	69,390	81,675	(35,736)	(48,224)	34,056	33,841
Deposits held	6B	626,368	575,450	-	-	-	-	(7,149)	(7,789)	619,219	567,661
Government securities	6C	10,380	10,468	16,558	8,418	2,795	2,394	(13,493)	(6,099)	16,240	15,181
Loans	6D	1,531	1,524	8,633	7,283	-	-	-	-	10,164	8,807
Other borrowings	6E	6,763	7,589	331	166	2,375	3,005	-	-	9,469	10,760
Total interest bearing liabilities		645,430	595,412	25,536	15,876	74,560	87,074	(56,378)	(62,112)	689,148	636,250

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

Australian Government balance sheet by sector – including General Government Sector Financial Report (continued)
as at 30 June 2019

Note	General Government	Public non-financial corporations		Public financial corporations		Eliminations(a)		Australian Government	
		2019	2018	2019	2018	2019	2018	2019	2018
		\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<i>Provisions and payables</i>									
Superannuation liability	6F	415,286	313,552	34	25	726	393	-	416,046
Other employee liabilities	6F	26,090	19,813	1,773	1,686	227	199	-	28,090
Supplier payables	6G	8,271	7,547	4,759	4,274	100	123	(83)	13,152
Personal benefits payable	6G	2,994	2,758	-	-	-	-	-	2,994
Subsidies payable	6G	630	602	-	-	-	-	-	630
Grants payable	6G	2,742	3,384	8	-	-	-	-	2,750
Australian currency on issue	6H	-	-	-	-	80,024	75,565	-	80,024
Tax liabilities	6G	3,293	2,507	607	786	-	-	(607)	(787)
Other payables	6H	3,2863	36,034	784	657	1,842	1,026	(1,934)	(1,162)
Other provisions				713	614	1,547	1,302	-	-
Total provisions and payables		502,169	386,97	8,678	8,042	84,466	78,609	(2,519)	(2,032)
Total liabilities		1,147,599	981,609	34,214	23,918	159,026	165,653	(58,897)	(64,144)
<i>Net worth</i>									
Accumulated results		(612,189)	(483,355)	(19,415)	(13,438)	(217)	41	(3,371)	(3,966)
Reserves		68,842	65,205	9,960	8,158	29,601	26,968	(18,027)	(16,462)
Contributed equity		-	-	35,827	34,741	342	296	(36,169)	(35,037)
Minority interests		183	111	-	-	-	-	-	-
Net worth		(543,164)	(418,039)	26,372	29,461	29,726	26,305	(57,567)	(55,465)

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

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

Australian Government cash flow statement by sector — including General Government Sector Financial Report
for the year ended 30 June 2019

	General Government		Public non-financial corporations		Public financial corporations		Eliminations and netting (a)		Australian Government	
	2019 \$m		2018 \$m		2019 \$m		2018 \$m		2019 \$m	
	2019 \$m	2018 \$m	2019 \$m	2018 \$m	2019 \$m	2018 \$m	2019 \$m	2018 \$m	2019 \$m	2018 \$m
OPERATING ACTIVITIES										
Cash received	448,578	418,053	-	-	-	-	(322)	(87)	448,256	417,966
Taxes received										
Receipts from sales of goods and services	12,863	9,941	17,137	13,064	735	701	(2,694)	(2,349)	28,041	21,357
Interest receipts	3,768	3,434	38	47	2,464	2,284	(1,000)	(1,029)	5,270	4,736
Dividend receipts	8,978	5,407	-	-	7	9	(1,086)	(1,314)	7,899	4,102
GST receipts										
Other receipts	10,501	8,745	660	720	12	14	(672)	(734)	-	-
Total cash received	484,688	445,580	17,889	13,865	3,377	3,292	(6,211)	(5,978)	499,743	456,759
Cash used										
Taxes paid	-	-	(269)	(94)	(1)	-	270	94	-	-
Payments for employees	(29,120)	(27,969)	(4,802)	(4,184)	(236)	(215)	9	-	(34,149)	(32,368)
Payments for goods and services	(111,826)	(99,130)	(9,210)	(9,165)	(557)	(425)	3,049	2,862	(120,991)	(105,903)
Grants and subsidies paid	(170,467)	(161,868)	-	-	-	-	260	225	(170,207)	(161,643)
Interest paid	(18,951)	(16,568)	(446)	(122)	(1,109)	(1,318)	1,024	1,065	(19,482)	(16,943)
Personal benefits paid	(126,362)	(127,940)	-	-	-	-	-	-	(126,362)	(127,940)
GST paid										
Other payments	(6,710)	(6,425)	(410)	(426)	(15)	(14)	425	440	-	-
Total cash used	(463,436)	(439,900)	(18,283)	(15,068)	(1,032)	(65)	(76)	6	(7,474)	(7,527)
Net cash from operating activities	21,252	5,680	(394)	(1,203)	1,394	1,244	(1,174)	(1,286)	(478,665)	(452,324)
INVESTING ACTIVITIES										
Investments in non-financial assets	597	1,325	43	332	159	-	-	-	799	1,657
Sales of non-financial assets	(14,656)	(12,705)	(7,903)	(7,091)	(48)	(52)	15	10	(22,592)	(19,338)
Purchases of non-financial assets	(14,059)	(11,380)	(7,860)	(6,759)	111	(52)	15	10	(21,793)	(18,181)
Net cash from non-financial assets	(28,116)	(11,025)	(1,033)	(1,033)	57	-	-	-	(43,385)	(30,321)

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

**Australian Government cash flow statement by sector — including General Government Sector Financial Report
(continued)**
for the year ended 30 June 2019

	General Government		Public non-financial corporations		Public financial corporations		Eliminations and netting(a)		Australian Government	
	2019 \$m	2018 \$m	2019 \$m	2018 \$m	2019 \$m	2018 \$m	2019 \$m	2018 \$m	2019 \$m	2018 \$m
INVESTING ACTIVITIES										
Investments in financial assets for policy purposes										
Receipts from policy investments	3,764	5,265	-	33	383	268	(87)	(120)	4,060	5,446
Payments for policy investments	(18,152)	(25,306)	(2)	(4)	(632)	(237)	8,411	8,008	(10,375)	(17,539)
Net cash from policy investments	(14,388)	(20,041)	(2)	29	(249)	31	8,324	7,988	(6,315)	(12,983)
Investments in financial assets for liquidity purposes	1,491	(43)	(27)	144	9,131	9,217	(14,670)	(15,531)	(4,075)	(6,213)
Net cash from investing activities	(26,956)	(31,464)	(7,889)	(6,586)	8,993	9,196	(6,331)	(7,633)	(32,183)	(36,487)
FINANCING ACTIVITIES										
Cash flows from financing activities										
Net cash received	10,415	30,564	8,120	5,382	344	(52)	(6,791)	(1,413)	12,088	34,481
Borrowings	2,394	-	997	2,693	(60)	(10)	(937)	(2,703)	-	-
Contributed equity			77	23	(8,192)	(9,153)	12,524	10,129	6,803	3,778
Other financing					(7,908)	(9,195)	4,796	6,013	18,891	38,259
Net cash received	12,809	33,343	9,194	8,098						
Net cash used										
Distributions paid	(6)	(5,836)	(397)	(191)	(800)	(1,129)	1,197	1,320	(6)	-
Other financing	(5,362)	(5,836)	(409)	(329)	(81)	-	2	-	(5,844)	(6,165)
Net cash used	(11,199)	(5,836)	(806)	(520)	(881)	(1,129)	1,199	1,320	(5,850)	(6,165)
Net cash from financing activities										
Net increase/(decrease) in cash	7,447	27,507	8,388	7,578	(8,789)	(10,324)	5,995	7,333	13,041	32,094
Cash at beginning of year	1,743	1,723	105	(211)	1,598	116	(1,510)	(1,586)	1,936	42
Cash at end of year	6,863	5,140	1,973	2,184	636	520	(3,147)	(1,561)	6,325	6,283
Key fiscal aggregate	8,606	6,863	2,078	1,973	2,234	636	(4,657)	(3,147)	8,261	6,325
Net cash flows from operating activities	21,252	5,680	(394)	(1,203)	1,394	1,244	(1,174)	(1,286)	21,078	4,435
Net cash flows from investments in non-financial assets	(14,059)	(11,380)	(7,860)	(6,759)	111	(52)	15	10	(21,793)	(18,181)
Cash surplus/(deficit)	7,193	(5,700)	(8,254)	(7,962)	1,505	1,192	(1,159)	(1,276)	(715)	(13,746)

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

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

Australian Government statement of changes in equity (net worth) by sector
for the year ended 30 June 2019

Item	Accumulated results \$m	Asset revaluation reserve \$m	Reserves				Total reserves \$m	Contributed equity \$m	Total Net Worth \$m
			Foreign currency reserve \$m	Investments reserve \$m	Statutory funds \$m	Other reserves \$m			
General Government									
Adjusted opening balance as at 1 July 2017	(456,312)	44,143	41	20,827	-	45	65,056	-	(391,256)
Dividends provided for or paid	(3)	-	-	-	-	-	-	-	(3)
Comprehensive result - change in net worth	(28,349)	2,448	13	(887)	-	(5)	1,569	-	(26,780)
Transfers to/(from)/between reserves	1,419	(4)	-	(1,447)	-	32	(1,419)	-	-
Net worth as at 30 June 2018	(483,245)	46,587	54	18,493	-	72	65,206	-	(418,039)
<i>less: Minority interests</i>							1		111
Attributable to the General Government									
Sector at 30 June 2018	(483,355)	46,587	54	18,492	-	72	65,205	-	(418,150)
Adjustment on initial application of AASB 9	51	(43)	-	-	-	-	(43)	-	8
Non-material changes in accounting policy and errors	-	-	-	-	-	-	-	-	-
Adjusted opening balance as at 1 July 2018	(483,194)	46,544	54	18,493	-	72	65,163	-	(418,031)
Dividends provided for or paid	(6)	-	-	-	-	-	-	-	(6)
Comprehensive result - change in net worth	(128,293)	2,064	11	1,090	-	1	3,166	-	(125,127)
<i>Contribution/(Distribution) of Equity</i>	-	-	-	-	-	-	-	-	-
Transfers to/(from)/between reserves	(514)	14	-	511	-	(11)	514	-	-
Other movements	-	-	-	-	-	-	-	-	-
Net worth as at 30 June 2019	(612,007)	48,622	65	20,094	-	62	68,843	-	(543,164)
<i>less: Minority interests</i>							1		183
Attributable to the General Government									
Sector at 30 June 2019	(612,189)	48,622	65	20,093	-	62	68,842	-	(543,347)

Australian Government statement of changes in equity (net worth) by sector (continued)
for the year ended 30 June 2019

Item	Accumulated results \$m	Asset revaluation reserve \$m	Foreign currency translation reserve \$m	Investments reserve \$m	Statutory funds \$m	Other reserves \$m	Reserves		Total Net Worth \$m
							Total reserves \$m	Contributed equity \$m	
Public non-financial corporations									
Opening balance as at 1 July 2017	(10,274)	2,696	2	-	-	266	2,964	31,087	23,777
Other movements	-	-	-	-	-	-	-	-	-
Adjusted opening balance as at 1 July 2017	(10,274)	2,696	2	-	-	266	2,964	31,087	23,777
Comprehensive result - change in net worth	(2,993)	5,217	3	-	-	(7)	5,213	817	3,037
Dividends provided for or paid	(190)	-	-	-	-	-	-	-	(190)
Transfers to/(from)/between reserves	19	(8)	-	-	-	(11)	(19)	-	-
Contribution/(distribution) of equity	-	-	-	-	-	-	-	2,837	2,837
Net worth as at 30 June 2018	(13,438)	7,905	5	-	-	248	8,158	34,741	29,461
Adjustment on initial application of AASB 9	(4)	-	-	-	-	-	-	-	(4)
Adjusted opening balance as at 1 July 2018	(13,442)	7,905	5	-	-	248	8,158	34,741	29,457
Comprehensive result - change in net worth	(5,661)	1,972	3	-	-	(88)	1,887	1	(3,773)
Dividends provided for or paid	(397)	-	-	-	-	-	-	-	(397)
Transfers to/(from)/between reserves	85	(17)	-	-	-	(68)	(85)	-	-
Contribution/(distribution) of equity	-	-	-	-	-	-	-	1,085	1,085
Other movements	-	-	-	-	-	-	-	-	-
Net worth as at 30 June 2019	(19,415)	9,860	8	-	-	92	9,960	35,827	26,372

Australian Government statement of changes in equity (net worth) by sector (continued)
for the year ended 30 June 2019

Item	Accumulated results \$m	Asset revaluation reserve \$m	Reserves				Total Net Worth \$m
			Foreign currency translation reserve \$m	Investments reserve \$m	Statutory funds \$m	Other reserves \$m	
Public financial corporations							
Adjusted opening balance as at 1 July 2017	89	4,786	-	-	14,119	3,476	22,381
Comprehensive result - change in net worth	3,832	300	-	-	-	139	439
Dividends provided for or paid	(732)	-	-	-	-	-	-
Transfers to/(from)between reserves	(3,148)	-	-	-	-	3,148	3,148
Contribution/(distribution) of equity	-	-	-	-	-	-	-
Net worth as at 30 June 2018	41	5,086	-	-	14,119	6,763	25,963
Adjustment on initial application of AASB 9	(1)	-	-	-	14,119	-	-
Adjusted opening balance as at 1 July 2018	40	5,086	-	-	6,763	25,968	296
Comprehensive result - change in net worth	4,341	953	-	-	(216)	737	36
Dividends provided for or paid	(1,596)	-	-	-	-	-	5,114
Transfers to/(from)between reserves	(3,002)	(106)	-	-	3,002	2,896	(1,596)
Contribution/(distribution) of equity	-	-	-	-	-	-	-
Other movements	-	-	-	-	-	-	(96)
Net worth as at 30 June 2019	(217)	5,933	-	-	14,119	9,549	29,601

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

NOTES TO THE FINANCIAL STATEMENTS

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Note 1: Basis of financial statements preparation

1.1 Purpose

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

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

1.2 Statement of compliance

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

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

1.3 Basis of accounting

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

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

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

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

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

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

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

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

1.4 New Australian Accounting Standards

Adoption of new Australian Accounting Standard requirements

During 2018-19, the Australian Government adopted all applicable accounting standards that became effective during the year. The following standard was mandatorily applicable for the first time for the year ended 30 June 2019 and has not had a material impact on the CFS.

AASB 9 Financial Instruments (AASB 9)

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

Adoption of AASB 9 has been made in accordance with the transitional provisions. The initial impacts of the adoption of AASB 9 have been recognised

directly in opening accumulated results and in net worth, with no restatement of comparatives required. The nature and effect of the changes as a result of adoption of AASB 9 are described as follows:

Impact on opening balances	Ref	1 July 2018 \$m (increase/(decrease))
Classification and measurement	i	39
Impairment	ii	(36)

The \$3 million net impact as a result of the above classification and impairment changes are represented in the Australian Government statement of changes in equity as an increase of \$46 million to accumulated results and decrease of \$43 million to the asset revaluation reserve. The difference relates to where the underlying balances are reported in the statement of changes in equity.

(i) Classification and measurement

The changes to the measurement of financial assets or financial liabilities were not material to the CFS upon initial recognition of AASB 9. With certain minor exceptions disclosed in Note 10B, financial assets previously categorised as 'loans and receivables' or 'held to maturity' continue to be measured at amortised cost, equity investments that were classified as 'available for sale' assets under AASB 139 are classified as FVOCI under AASB 9 and continue to be measured at fair value, and the classification of financial assets and liabilities as FVTPL has not materially changed on transition from AASB 139 to AASB 9.

(ii) Impairment

Financial assets carried at amortised cost are tested for impairment based on expected losses, whereas the previous policy required that impairments were recognised only when there was objective evidence that a credit loss was present. The change to an expected credit loss provision resulted in a change of \$42 million as at 1 July 2018, which was recognised in accumulated results.

The change was not material to the CFS as the expected credit loss requirements of AASB 9 do not apply to statutory receivables (for example, taxation receivables) or financial assets measured at FVTPL. Further, the Australian Government's credit risk exposure is concentrated in counterparties and securities with 'A' ratings. Under the government accounting standard AASB 1049, expected credit losses (post transition) will be recognised in the operating statement in other economic flows.

The relevant Balance Sheet notes report the carrying amounts under AASB 9 and comparatives under AASB 139 with Note 10B reporting the transitional disclosures including a reconciliation of carrying amounts per category.

Future Australian Accounting Standards requirements

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

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

Effective date: 1 July 2019 (2019-20)

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

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

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

Likely impact on initial application: The impact of adopting AASB 15 and AASB 1058 has been assessed and no significant changes to accounting arising from adoption as at 1 July 2019 have been identified.

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

AASB 16 Leases (AASB 16)

Effective date: 1 July 2019 (2019-20)

Nature of change: AASB 16 replaces existing lease guidance, including AASB 17 *Leases*, Interpretation 4 *Determining whether an Arrangement contains a Lease*, Interpretation 115 *Operating Leases – Incentives* and Interpretation 127 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

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

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

Australian Government entities have progressed their assessment of the potential impact of AASB 16, however the actual impact of applying AASB 16 will depend on the economic conditions, including the Australian Government's borrowing rate as at 1 July 2019, the composition of the lease portfolio at that date, and the extent to which practical expedients and recognition exemptions are applied.

The most significant impact identified is that the Australian Government will recognise new assets and liabilities for its operating leases. The right-of-use assets and lease liabilities will also include assets leased by Australian Government entities under finance lease arrangements as reported in Notes 5D and 6D. To date, Australian Government entities have estimated that around \$21 billion in lease liabilities and right-of-use assets will be recognised as at 1 July 2019, of which around \$19 billion relates to entities within the general government sector.

The actual impact on the 2019-20 CFS may differ as entities complete their assessments and due to the elimination of leases between Australian Government controlled entities. The leases internal to the Australian Government primarily relate to the domestic property portfolio and the sub-letting of properties between Australian Government entities.

The above impacts do not include leases for nil or nominal consideration ('peppercorn leases'). The AASB published amendments to AASB 16 *Leases* and AASB 1058 *Income of Not-for-Profit Entities* that will temporarily relieve not-for-profit entities (NFPs) from the requirement to measure these leases at fair value.

In addition, the nature of expenses related to those leases will change as AASB 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities.

AASB 1059 Service Concession Arrangements (AASB 1059)

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

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

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

1.5 Restatement of prior period comparatives

The 2017-18 comparatives have been restated to account for the following:

- A restatement was made to superannuation tax receivables for errors identified in the Australian Taxation Office's (ATO) business systems and accounting system. Adjustments have been made to the 2017-18 comparatives as per adjustment (a) in the table below.
- The Commonwealth acquired full ownership of Snowy Hydro Limited on 29 June 2018 (refer Note 9). At the acquisition date, the estimated fair values of the separately identifiable assets acquired and liabilities assumed was valued at \$6,478 million. This included \$114 million in environmental certificates. SHL has now reviewed its accounting for environmental certificates and reduced the 2018 balance by \$85 million with associated net liabilities reduced by \$35 million. As a consequence, the separately identifiable net assets recorded by the Australian Government at the date of acquisition should have been \$6,426 million, increasing goodwill and other intangibles acquired by the same amount to \$587 million (compared to the \$535 million reported in the 2017-18 CFS). Adjustments have been made to the 2017-18 comparatives as per adjustment (b) in the table below.
- The outstanding claims provision for asbestos related disease claims was restated following an error in the calculation of economic assumptions for the actuarial valuation at 30 June 2018. This resulted in an increase in the outstanding claims provision. Adjustments have been made to the 2017-18 comparatives as per adjustment (c) in the table below.
- Grants payable to the states and territories under Council of Australian Governments (COAG) arrangements were previously netted-off against GST revenue allocations receivable and other COAG grants receivable. From 2018-19, these have been separately disclosed on a gross basis. Adjustments have been made to the 2017-18 comparatives as per adjustment (d) in the table below.

- The comparative employee provision was restated to correct an error relating to Australian Federal Police unpaid employee entitlements, primarily superannuation. An estimate of the associated cost has been recognised in the opening balances for 2017-18 to the extent applicable to earlier years. Adjustments have been made to the 2017-18 comparatives as per adjustment (e) in the table below. As part of the Australian Federal Police unpaid employee entitlements restatement, a reclassification was made between superannuation and other employee liabilities.
- An asset and liability is now recognised for amounts collected from insurers and third parties for Medicare compensation recovery claims where the recovery claims have not yet finalised. Previously, the monies received and offsetting liability were not reported in the CFS. Adjustments have been made to the 2017-18 comparatives as per adjustment (f) in the table below.
- The Australian Communications and Media Authority identified an error in the revenue recognised in their gains from sale of assets resulting in a restatement of accrued revenue. Adjustments have been made to the 2017-18 comparatives as per adjustment (g) in the table below.

The following material reclassifications have been made to the 2017-18 comparatives to ensure consistency with current year reporting (reclassifications within a note or financial statement category are not shown):

- Court ordered fines recorded by the ATO have been reclassified to move both the revenue and receivables balance from taxation to non-taxation in nature.
- Contributions for the Social and Community Services Pay Equity Special Account have been reclassified from other goods and services expense to current grants.
- Supervisory cost recovery levies administered by the Australian Securities and Investments Commission (ASIC) have been reclassified from taxation revenue and receivables to non-taxation revenue and receivables.
- Listed equities and managed investment scheme investments held by the Medical Research Future Fund (MRFF) have been reclassified from investments, loans and placements to equity investments.

The impact of the above reclassifications are shown in the following table.

Notes to the financial statements

	Note	2018 \$m	Adjustment							Reclass- ifications \$m	Restated 2018 \$m
			(a) \$m	(b) \$m	(c) \$m	(d) \$m	(e) \$m	(f) \$m	(g) \$m		
Revenue from transactions											
Taxation revenue	2A	427,239	-	-	-	-	-	-	-	(268)	426,971
Non-taxation revenue	2D	10,487	-	-	-	-	-	-	-	268	10,755
Total revenue		467,861	-	-	-	-	-	-	-	467,861	
Expenses from transactions											
<i>Gross operating expenses</i>											
Wages and salaries	3A	23,570	-	-	-	-	1	-	-	-	23,571
Superannuation	3A	8,357	-	-	-	-	2	-	-	-	8,359
Supply of goods and services	3C	107,362	-	-	-	-	-	-	(144)	107,218	
Total gross operating expenses		158,326	-	-	-	-	3	-	-	(144)	158,185
<i>Current transfers</i>											
Current grants	3E	139,286	-	-	-	-	-	-	-	144	139,430
Total current transfers		277,502	-	-	-	-	-	-	-	144	277,646
Total expenses	3F	476,240	-	-	-	-	3	-	-	-	476,243
Net operating balance		(8,379)	-	-	-	-	(3)	-	-	-	(8,382)
Other economic flows											
Other economic flows		4,292	-	-	(36)	-	-	-	-	-	4,256
Operating result		(4,087)	-	-	(36)	-	(3)	-	-	-	(4,126)
Assets											
<i>Financial assets</i>											
Cash and deposits		6,242	-	-	-	-	-	83	-	-	6,325
Other receivables and accrued revenue	5A	50,696	44	(2)	5	316	-	-	46	-	51,105
Investments, loans and placements	5B	326,823	-	(85)	-	-	-	-	-	(1,100)	325,638
Equity investments	5C	57,992	-	-	-	-	-	-	-	1,100	59,092
Total financial assets		493,518	44	(87)	5	316	-	83	46	-	493,925
<i>Non-financial assets</i>											
Intangibles	5D	11,519	-	52	-	-	-	-	-	-	11,571
Total non-financial assets		195,351	-	52	-	-	-	-	-	-	195,403
Total assets		688,869	44	(35)	5	316	-	83	46	-	689,328
Liabilities											
<i>Provisions and payables</i>											
Superannuation liability	6F	313,913	-	-	-	24	33	-	-	-	313,970
Other employee liabilities	6F	21,714	-	-	-	(24)	8	-	-	-	21,698
Supplier payables	6G	11,906	-	(45)	-	-	-	-	-	-	11,861
Grants payable	6G	3,068	-	-	-	316	-	-	-	-	3,384
Other payables	6G	2,945	-	-	-	-	-	83	-	-	3,028
Other provisions	6H	37,899	-	10	41	-	-	-	-	-	37,950
Total provisions and payables		470,370	-	(35)	41	316	41	83	-	-	470,816
Total liabilities		1,106,620	-	(35)	41	316	41	83	-	-	1,107,066
Net worth											
Opening balance as at 1 July 2017		(391,673)	44	-	-	-	(38)	-	46	-	(391,621)
Comprehensive result - Change in net worth		(26,075)	-	-	(36)	-	(3)	-	-	-	(26,114)
Net worth		(417,751)	44	-	(36)	-	(41)	-	46	-	(417,738)

1.6 The reporting entity and basis of consolidation

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

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

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

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

1.7 Business combinations

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

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

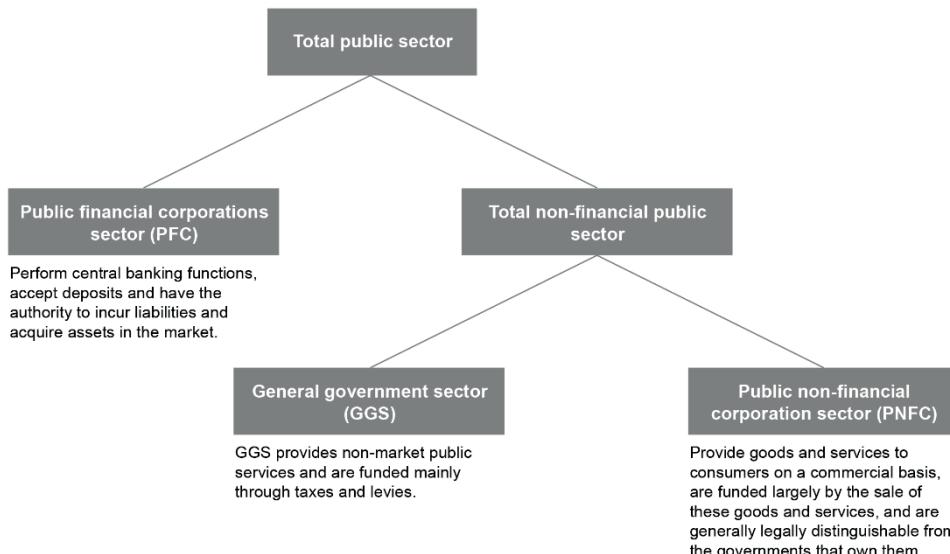
is required to be remeasured at acquisition, and any resultant gain or loss to be recognised in other comprehensive income.

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

1.8 Sectors

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

Figure 1: Institutional structure of the public sector



1.9 Significant accounting judgements and estimates

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

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

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

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

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

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

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

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

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

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

The following table summarises the inputs used by entities.

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

1.10 Insurance

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

1.11 Rounding

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

1.12 Compliance with the Commonwealth of Australia Constitution Act

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

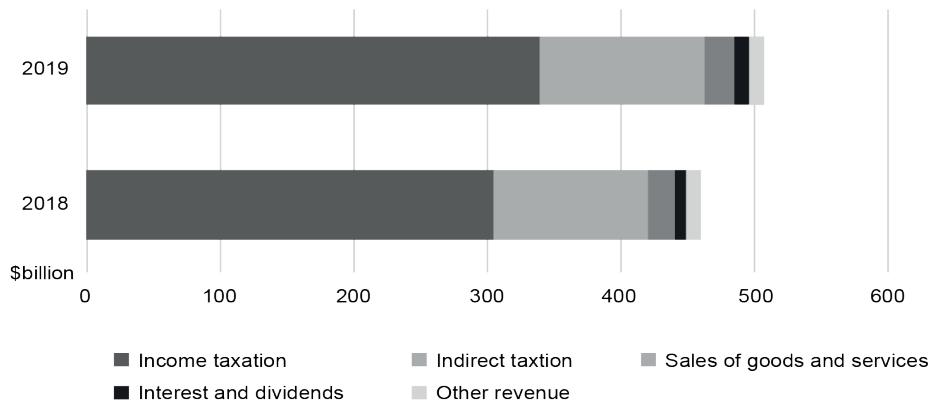
Australian Government entities monitor their level of compliance with section 83 of the Constitution across all legislation for which they have legislative responsibility. If an entity identified a potential or actual section 83 breach during the reporting period, the details have been disclosed in the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

In 2018-19, 930 actual breaches of section 83 were identified across nine Commonwealth entities, with a total value of \$79.8 million (2017-18: 916 breaches with a total value of \$1.3 million).

Note 2: Revenue from transactions

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

Revenue composition



- **Income taxation** (refer Note 2A) is the largest source of Australian Government revenue and refers to the taxation of income, profits and capital gains.
- **Indirect taxation** (refer Note 2A) includes taxes on the sale and use of goods and services and other taxes. This includes the goods and services tax (GST), customs and excise duties and other taxes levied on particular products or industries.
- **Sales of goods and services** (refer Note 2B) is distinguished from taxation in that the revenue is received in return for the direct provision of goods and services (including the provision of regulatory services) to the payer.
- **Interest income** (refer Note 2C) refers to income accrued on financial assets such as deposits, securities other than shares, loans and accounts receivable.
- **Dividend income** (refer Note 2C) includes equity distributions received by the Australian Government investment funds (investment funds) and corporations and, at the GGS level, also includes distributions from corporate Commonwealth entities or companies (which are eliminated upon consolidation).

- **Other non-taxation revenue** (refer Note 2D) includes transaction revenue not categorised elsewhere, with significant items including the Pharmaceutical Benefits Scheme (PBS) drug recoveries, the collection of royalties, the collection of child support payments to pass on to custodial parents and in-kind contributions from states and territories for services provided under the National Disability Support Scheme.

Note 2A: Taxation revenue

	General Government		Australian Government	
	2019	2018	2019	2018
	\$m	\$m	\$m	\$m
Income taxation				
Individuals and other withholding taxes				
Gross income tax withholding	206,403	193,809	206,403	193,809
Gross other individuals	51,555	46,645	51,555	46,645
/less Refunds	(29,514)	(29,102)	(29,514)	(29,102)
Total individuals and other withholding taxation	228,444	211,352	228,444	211,352
Fringe benefits tax	3,893	3,813	3,893	3,813
Company tax	94,844	85,735	94,532	85,729
Superannuation funds taxes	10,910	10,927	10,910	10,927
Resource rent taxes	1,202	993	1,202	993
Total income taxation revenue	339,293	312,820	338,981	312,814
Indirect taxation				
Sales taxes				
Goods and services tax	66,385	65,282	66,385	65,282
Wine equalisation tax	995	903	995	903
Luxury car tax	688	735	688	735
Total sales taxes	68,068	66,920	68,068	66,920
Excise duty revenue(a)	23,489	22,763	23,489	22,763
Customs duty revenue(a)	15,943	15,691	15,943	15,691
Other indirect taxation				
Major bank levy	1,566	1,527	1,566	1,527
Agricultural levies	563	564	563	564
Other taxes	7,281	6,692	7,281	6,692
Total other indirect taxation revenue	9,410	8,783	9,410	8,783
Mirror taxes	607	568	607	568
/less Transfers to States in relation to mirror tax revenue	(607)	(568)	(607)	(568)
Mirror tax revenue	-	-	-	-
Total indirect taxation revenue	116,910	114,157	116,910	114,157
Total taxation revenue	456,203	426,977	455,891	426,971

(a) The 2018-19 Final Budget Outcome provides a disaggregation of excise and customs duty revenue by duty type.

Taxation revenue

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

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

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

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

Type of taxation revenue	Method	Basis of revenue recognition
Petroleum resource rent tax (Resource rent taxes)	ETM	Recognised based on the actual and estimated taxable profits in respect to offshore petroleum projects excluding some of the North-West Shelf production and associated exploration areas, which are subject to excise (included in excise on petroleum and other fuel products) and royalties.
Goods and services tax (GST)	ETM	Recognised based on the actual liabilities raised during the year and includes an estimate of amounts outstanding that relate to transactions occurring in the reporting period.
Excise duty	ETM	Recognised based on the actual and estimated duty payable. Excise duty becomes payable when certain goods are distributed for home consumption during the reporting period.
Customs duty	ETM	Recognised when imported goods are distributed for home consumption.
Luxury car tax	ETM	Recognised at the time the sale (or private import) of a luxury vehicle occurs within the reporting period and includes an estimate of amounts outstanding that relate to transactions occurring in the reporting period.
Wine equalisation tax	ETM	Recognised when an assessable dealing occurs within the reporting period giving rise to a tax liability and includes an estimate of amounts outstanding that relate to transactions occurring in the reporting period.
Fringe benefits tax (FBT)	ETM	Recognised on fringe benefits provided by employers to employees during the reporting period and includes an estimate of outstanding instalments and balancing payments for the annual FBT return.
Major bank levy	ETM	Major bank levy is a levy calculated within the reporting period on authorised deposit-taking institutions with a total liability threshold of greater than \$100 billion.

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

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

Concessions and other forms of tax expenditures constitute revenue foregone and are not reported as taxation revenue or an expense (unless available to beneficiaries regardless of whether they are required to pay tax in which case an expense is recorded). The Department of the Treasury (the Treasury) issues an

annual Tax Benchmarks and Variations Statement (unaudited), which provides a list of tax expenditures provided by the Australian Government to individuals and businesses.

Note 2B: Sales of goods and services

	General Government		Australian Government	
	2019	2018	2019	2018
	\$m	\$m	\$m	\$m
Sales of goods	1,306	1,386	4,538	1,776
Rendering of services	9,774	6,844	21,723	17,733
Operating lease rental	151	146	212	211
Other fees from regulatory services	1,257	1,394	1,257	1,394
Total sales of goods and services revenue	12,488	9,770	27,730	21,114

Sales of goods and services

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

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

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

Note 2C: Interest and dividend income

	General Government		Australian Government	
	2019	2018	2019	2018
	\$m	\$m	\$m	\$m
Interest from other governments				
State and territory debt	56	55	56	55
Housing agreements	98	103	98	103
General purpose advances	-	-	112	121
Total interest from other governments	154	158	266	279
Interest from other sources				
Indexation of HELP receivable and other student loans	645	567	645	567
Securities	1,253	1,123	1,278	1,144
Advances, deposits and other	2,403	1,469	3,837	2,784
Total interest from other sources	4,301	3,159	5,760	4,495
Total interest	4,455	3,317	6,026	4,774
Dividends				
Dividends from other public sector entities	1,915	973	-	-
Other dividends	7,707	4,113	7,797	4,247
Total dividends	9,622	5,086	7,797	4,247
Total interest and dividend income	14,077	8,403	13,823	9,021

Interest and dividend income

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

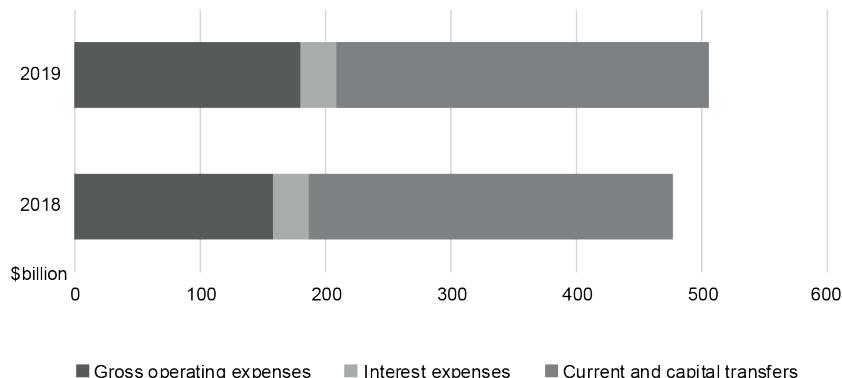
Note 2D: Other sources of non-taxation revenue

	General Government		Australian Government	
	2019	2018	2019	2018
	\$m	\$m	\$m	\$m
Royalties	1,432	1,101	1,432	1,101
Seigniorage	62	89	62	89
Child support payments	1,657	1,576	1,657	1,576
Loan fees	174	169	174	169
PBS drug recoveries	2,242	2,359	2,242	2,359
Contributions in-kind from state and territory governments	1,259	1,086	1,259	1,086
Other	3,896	4,591	3,712	4,375
Total other sources of non-taxation revenue	10,722	10,971	10,538	10,755

Note 3: Expenses from transactions

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

Expense composition



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

Note 3A: Employee and superannuation expenses

	General Government		Australian Government	
	2019	2018	2019	2018
	\$m	\$m	\$m	\$m
Wages and salaries expenses	19,775	19,214	24,337	23,571
Other operating expenses				
Leave and other entitlements	3,312	3,023	3,934	3,490
Separations and redundancies	243	287	313	323
Workers compensation premiums and claims	1,866	1,117	1,917	1,161
Allowances, FBT and other	2,472	2,294	2,562	2,379
Total other operating expenses	7,893	6,721	8,726	7,353
Superannuation expenses				
Superannuation	9,136	7,791	9,695	8,359
Superannuation interest	9,444	9,240	9,444	9,240
Total superannuation expenses	18,580	17,031	19,139	17,599
Total employee and superannuation expenses(a)	46,248	42,966	52,202	48,523

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

Note 3B: Depreciation and amortisation expenses

	General Government		Australian Government	
	2019	2018	2019	2018
	\$m	\$m	\$m	\$m
Depreciation				
Specialist military equipment	4,620	4,448	4,620	4,448
Buildings	1,486	1,483	1,646	1,642
Other plant, equipment and infrastructure	1,653	1,685	4,333	3,659
Heritage and cultural assets	78	96	78	96
Total depreciation	7,837	7,712	10,677	9,845
Amortisation				
Assets held under finance leases	66	77	360	321
Computer software	1,110	1,001	1,629	1,518
Other intangibles	93	87	181	113
Total amortisation	1,269	1,165	2,170	1,952
<i>add back</i> Amortisation of non-produced assets	(93)	(87)	(181)	(113)
Total depreciation and amortisation expense	9,013	8,790	12,666	11,684

Depreciation

Land, being an asset with an unlimited useful life, is not depreciated. From 1 July 2018, some entities determined that heritage and cultural assets are no longer depreciated as they have infinite useful lives given they have appropriate curatorial and preservation policies and procedures in place. The change in estimate has been applied prospectively. The majority of buildings, plant, equipment and infrastructure are depreciated on a straight-line basis over their useful life, or over the lesser of the lease term and useful life for leasehold improvements.

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

	2019	2018
Buildings	1-200 years	1-200 years
Specialist military equipment	1-50 years	1-48 years
Other plant, equipment and infrastructure	1-400 years	1-400 years
Heritage and cultural assets	1-5,000 years	1-5,000 years

Amortisation

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

	2019	2018
Computer software	1-26 years	1-26 years
Other intangibles	1-100 years	1-100 years

Note 3C: Supply of goods and services

	General Government		Australian Government	
	2019	2018	2019	2018
	\$m	\$m	\$m	\$m
Supply of goods and services	31,867	29,884	40,449	36,280
Operating lease rental expenses	2,637	2,524	2,983	2,804
Health care payments	4,686	4,616	4,688	4,616
Benefits to households in goods and services	72,034	60,763	72,036	60,763
Other	4,084	2,537	4,496	2,755
Total payment for supply of goods and services	115,308	100,324	124,652	107,218

Supply of goods and services

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

Operating leases

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

Operating lease commitments

Operating lease commitments include the following types of leasing arrangements:

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

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

	General Government		Australian Government	
	2019 \$m	2018 \$m	2019 \$m	2018 \$m
Leasing commitments				
Within 1 year	2,725	2,835	3,105	3,172
Between 1 to 5 years	6,788	8,224	7,866	9,174
More than 5 years	7,440	7,292	8,649	8,455
Total lease commitments	16,953	18,351	19,620	20,801

Subleases

Within the Australian Government, the majority of sublease commitments involve property arrangements between controlled entities. Some entities also sublease to external parties, with the largest including commercial, industrial and retail sites subleased by Australia Post (2019: \$146 million; 2018: \$154 million) and facilities and diplomatic land subleased by the National Capital Authority in Canberra (2019: \$67 million; 2018: \$69 million).

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

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

Note 3D: Interest expense

	General Government		Australian Government	
	2019	2018	2019	2018
	\$m	\$m	\$m	\$m
Interest on debt				
Government securities	17,088	16,996	17,088	16,996
Taxation overpayments	113	105	113	105
Exchange settlement funds	-	-	412	408
Other	84	62	364	301
Total interest on debt	17,285	17,163	17,977	17,810
Other financing costs				
Discount on concessional instruments	322	226	364	226
Unwinding of provisions and other	362	318	368	321
Finance charges for finance leases	104	104	761	639
Total other financing costs	788	648	1,493	1,186
Total interest expense	18,073	17,811	19,470	18,996

Interest expense

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

Note 3E: Grants expense

	General Government		Australian Government	
	2019	2018	2019	2018
	\$m	\$m	\$m	\$m
Current grants expense				
State and territory governments(a)	117,727	111,208	117,727	111,208
Private sector	9,857	8,319	9,857	8,319
Overseas	3,803	3,543	3,803	3,543
Non-profit organisations	5,330	4,744	5,330	4,744
Multi-jurisdictional sector	10,220	10,350	10,220	10,350
Other	1,045	1,262	1,019	1,266
Total current grants expense	147,982	139,426	147,956	139,430
Capital grants expense				
Mutually agreed write-downs	1,243	1,996	1,243	1,996
<i>Other capital grants expense</i>				
State and territory governments(a)	8,768	8,381	8,768	8,381
Local governments	436	690	436	690
Non-profit organisations	550	674	550	674
Private sector	85	190	85	190
Other	116	662	9	245
<i>Total other capital grants expense</i>	<i>9,955</i>	<i>10,597</i>	<i>9,848</i>	<i>10,180</i>
Total capital grants expense	11,198	12,593	11,091	12,176
Total grants expense	159,180	152,019	159,047	151,606

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

Current and capital transfers (grants)

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

Where a transaction or event gives rise to legal, social, political or economic consequences such that the Australian Government has little discretion to avoid the sacrifice of future economic benefits, a liability and expense is recognised. In other circumstances, grants are recognised to the extent that the services required to be performed by the grantee have been performed or the grant eligibility criteria have been satisfied.

Multi-year government-to-government grants, including education grants, are recognised when the recipient government has met the grant eligibility criteria or provided the services or facilities that make it eligible to receive the grant.

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

The 2018-19 Final Budget Outcome provides a disaggregation of current and capital grants to state and territory governments, and local governments, by jurisdiction.

Note 3F: Expenses by function

	General Government		Australian Government	
	2019 \$m	2018 \$m	2019 \$m	2018 \$m
General public services	26,513	24,521	27,479	25,404
Defence	30,759	29,288	30,799	29,376
Public order and safety	5,774	5,345	5,770	5,342
Education	34,578	33,523	34,578	33,522
Health	80,196	76,039	80,322	76,158
Social security and welfare	170,046	157,745	169,865	157,560
Housing and community amenities	5,014	5,405	5,065	5,404
Recreation and culture	3,982	3,735	3,982	3,735
Fuel and energy	7,698	7,378	10,264	7,381
Agriculture, forestry and fishing	2,611	2,613	2,611	2,613
Mining, manufacturing and construction	2,505	2,592	2,609	2,686
Transport and communication	8,125	9,180	24,412	24,047
Other economic affairs	9,714	9,861	9,839	9,955
Other purposes	97,132	93,055	97,129	93,060
Total expenses	484,647	460,280	504,724	476,243

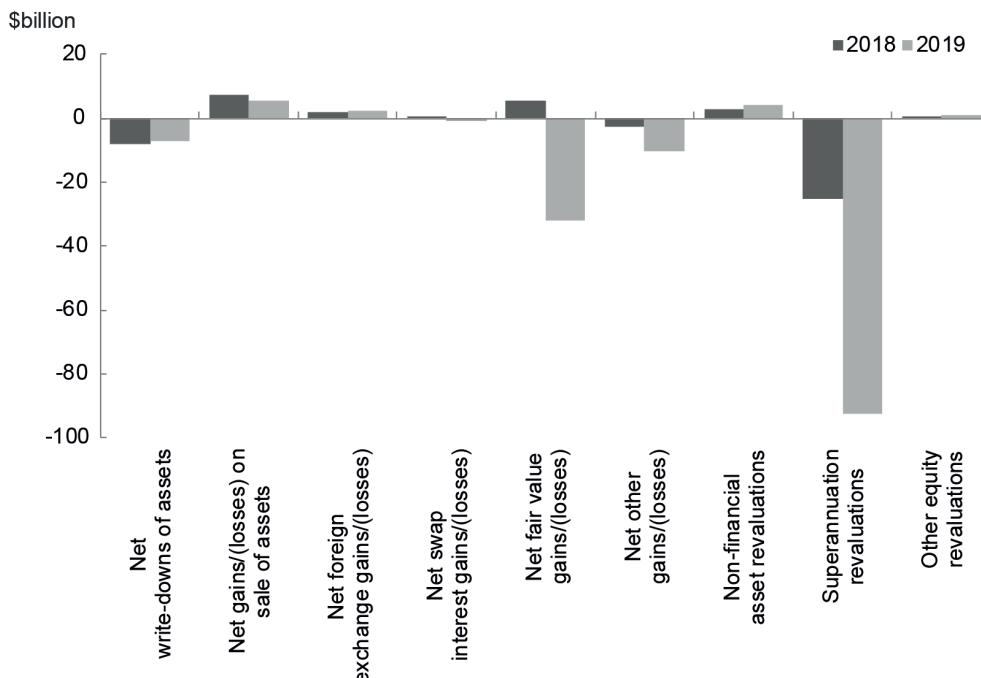
The functional classification of expenses shows the total accrual outlays according to the socioeconomic objectives that the Australian Government aims to achieve. The following table provides a description of each function.

Function	Description
General public services	Includes legislative and executive affairs, financial and fiscal affairs, foreign affairs, foreign economic aid, general research, general economic and social planning, statistical services, and government superannuation benefits.

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

Note 4: Other economic flows

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



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

- **Net write-down of assets (including bad and doubtful debts)** (refer Note 4A) comprise the revaluation and impairment of financial and non-financial assets.
- **Net gains/(losses) from the sale of assets** (refer Note 4B) is the difference between the proceeds and the carrying amount of assets sold after selling costs.
- **Net foreign exchange gains/(losses)** (refer Note 4C) comprise unrealised gains/losses from the translation of assets and liabilities held overseas.

- **Net swap interest gains/(losses)** (refer Note 4C) comprise interest accrued or incurred on swaps and other derivatives (a form of financing transaction).
- **Net fair value and other gains/(losses)** (refer Note 4C) comprise fair value movements and other volume or price movements included in the calculation of the operating result for accounting purposes.

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

	General Government		Australian Government	
	2019	2018	2019	2018
	\$m	\$m	\$m	\$m
Financial assets				
Receivables – impairment gain or loss				
Taxes due	5,558	5,430	5,558	5,430
Goods and services	122	156	152	156
Other	103	976	105	976
Total receivables – impairment gain or loss	5,783	6,562	5,815	6,562
Net impact on other financial assets(a)	13	192	12	237
Total financial write-down and impairment	5,796	6,754	5,827	6,799
Non-financial assets				
Inventories	337	500	342	506
Land	30	3	30	3
Buildings	41	46	108	46
Specialist military equipment	167	361	167	361
Other infrastructure, plant and equipment	37	70	579	111
Heritage and cultural assets	1	1	1	1
Intangibles	6	75	18	114
Net write-down, impairment and fair value losses arising from the revaluation of non-financial assets	619	1,056	1,245	1,142
Total net write-down and impairment of assets and fair value losses	6,415	7,810	7,072	7,941

(a) Comparative net fair value losses on ‘financial assets at fair value through profit and loss’ have been reclassified to Note 4C for consistency with the current year disclosure.

Impairment of statutory receivables - taxes due

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

Impairment of goods and services receivable

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

Impairment of non-financial assets

Non-financial assets were assessed for impairment at 30 June 2019. Where indications of impairment exist, the asset's recoverable amount is estimated and an impairment adjustment made if the asset's recoverable amount is less than its carrying amount. The recoverable amount of an asset is the higher of its fair value less cost to sell and its value in use. Where an asset is held for continuing use and not primarily for its ability to generate net cash flows, its value in use is taken to be its current replacement cost (CRC).

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

	General Government		Australian Government	
	2019	2018	2019	2018
	\$m	\$m	\$m	\$m
Financial assets				
Net gains/(losses) from sale of investments	5,301	4,315	5,448	4,056
Non-financial assets				
Proceeds from sale of non-financial assets	187	4,258	419	4,432
less selling costs	(13)	(11)	(13)	(11)
less written down value of assets sold	(197)	(1,096)	(373)	(1,268)
Net gains/(losses) - non-financial assets	(23)	3,151	33	3,153
Net gains/(losses) from sale of assets	5,278	7,466	5,481	7,209
add back Selling costs included in expenses	13	11	13	11
Net gains/(losses) from sale of assets in other economic flows	5,291	7,477	5,494	7,220

Note 4C: Other gains/(losses)

	General Government		Australian Government	
	2019	2018	2019	2018
	\$m	\$m	\$m	\$m
Foreign exchange				
Net foreign exchange gains/(losses)	(902)	(1,269)	2,268	1,982
Net foreign exchange gains/(losses)	(902)	(1,269)	2,268	1,982
Interest on derivatives				
Net swap interest revenue	2,182	2,473	2,284	2,558
Net swap interest expense	(2,804)	(2,412)	(2,888)	(2,469)
Net interest on derivatives	(622)	61	(604)	89
Fair value through profit or loss				
Net fair value gains - financial instruments	(32,207)	5,514	(32,120)	5,571
Net fair value gains - biological assets	-	(1)	-	(1)
Net fair value gains - investment properties	1	8	12	8
Net fair value gains/(losses)	(32,206)	5,521	(32,108)	5,578
Other				
Net repurchase premia	(896)	(524)	(896)	(524)
Net actuarial gains/(losses)	(9,931)	(2,219)	(10,281)	(2,414)
Amortisation of non-produced assets	(93)	(87)	(181)	(113)
Net result from associates and joint ventures	151	195	165	201
Other	627	124	676	178
Net other gains/(losses)	(10,142)	(2,511)	(10,517)	(2,672)
Total other gains/(losses)	(43,872)	1,802	(40,961)	4,977

Foreign currency translation

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

Swap interest

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

Fair value through profit or loss

Comprises fair value gains and losses in financial assets and liabilities categorised as 'held at fair value through profit or loss' (FVTPL) and fair value movements in biological assets and investment properties. Financial assets categorised as FVTPL include student loans and investments held by the Future Fund and other

Australian Government Investment Funds. Financial liabilities classified as FVTPL include Government securities.

Other gains/(losses)

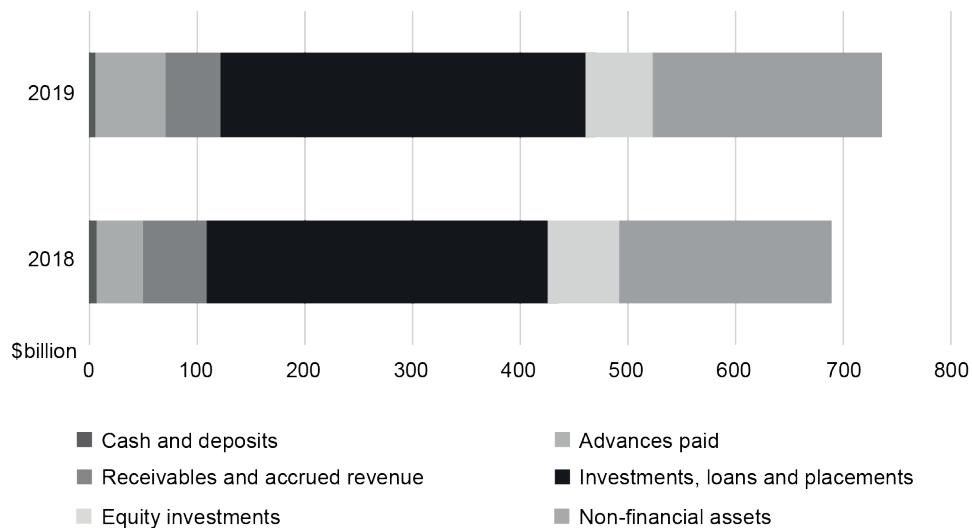
Other gains/(losses) include:

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

Note 5: Assets

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

Asset composition



General recognition and measurement policies

Financial assets

Financial assets are classified in accordance with the Universal Presentation Framework as follows:

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

The Australian Government also discloses financial assets by category of financial instrument. The classification of financial assets under AASB 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

The Australian Government balance sheet also includes financial assets which are not financial instruments under AASB 9 as the assets do not represent cash, an equity instrument of another entity, nor a contractual right to receive cash or another financial asset. Statutory receivables, gold holdings and equity accounted investments are included in financial assets in the balance sheet, but are excluded from additional financial instrument disclosures. Financial assets are allocated into the following categories:

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

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

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

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

Non-financial assets

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

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

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

Prepayments are recognised at amortised cost.

Note 5A: Advances paid and receivables

	General Government		Australian Government	
	2019	2018	2019	2018
	\$m	\$m	\$m	\$m
ADVANCES PAID				
Loans to state and territory governments	3,604	3,856	3,604	3,856
Student loans	51,688	40,948	51,688	40,948
Other	20,366	11,659	8,891	7,367
/less Impairment allowance(a)	(264)	(405)	(265)	(406)
Total advances paid	75,394	56,058	63,918	51,765
OTHER RECEIVABLES				
Taxes receivable				
Taxes receivable	47,075	42,624	47,163	42,660
/less Impairment allowance	(15,614)	(14,345)	(15,614)	(14,345)
/less Credit amendment allowance	(5,092)	(4,395)	(5,092)	(4,395)
Net taxes receivable	26,369	23,884	26,457	23,920
Personal benefits recoverable				
Recoveries of benefit payments	5,594	5,543	5,594	5,543
/less Impairment allowance	(1,958)	(2,009)	(1,958)	(2,009)
Net personal benefits recoverable	3,636	3,534	3,636	3,534
Goods and services and other				
Goods and services receivable	1,325	1,198	3,003	2,688
Other receivables	7,868	7,067	6,398	6,222
/less Impairment allowance	(912)	(987)	(959)	(1,026)
Net goods and services and other	8,281	7,278	8,442	7,884
Total other receivables	38,286	34,696	38,535	35,338
ACCRUED REVENUE				
Accrued taxation revenue	13,702	14,151	13,702	14,152
Other accrued revenue	782	1,424	942	1,615
Total accrued revenue	14,484	15,575	14,644	15,767
Other receivables and accrued revenue	52,770	50,271	53,179	51,105
Total advances paid and receivables	128,164	106,329	117,097	102,870
By maturity:				
No more than 12 months	49,383	50,142	50,349	51,577
More than 12 months	78,781	56,187	66,748	51,293
Total by maturity	128,164	106,329	117,097	102,870

	General Government		Australian Government	
	2019	2018	2019	2018
	\$m	\$m	\$m	\$m
By category of financial assets under AASB 139:				
Loans and receivables		22,150		17,001
<i>Fair value:</i>				
At fair value through profit and loss		41,423		43,076
Statutory receivable		42,756		42,793
Total by category of financial asset	106,329			102,870
By category of financial assets under AASB 9:				
Amortised cost	30,410		17,594	
<i>Fair value:</i>				
Fair value through profit and loss	52,758		54,419	
Statutory receivable	44,996		45,084	
Total by category of financial asset	128,164			117,097

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

Objective

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

Recognition and measurement of advances paid and receivables

Advances are recognised initially at fair value plus transaction costs and subsequently measured at amortised cost using the effective interest rate method (less impairment), unless these loans have been designated as 'held at fair value through profit or loss'. Interest is recognised on loans evenly in proportion to the amount outstanding over the period to repayment. Loans designated as 'held at fair value through profit or loss' are those which exhibit cash flow characteristics which are not solely payments of principal and interest (SPPI) and include HELP student loans.

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

Accounting judgement and estimate — Credit risk

Credit risk in relation to financial assets, is the risk that a third party will not meet its obligations in accordance with agreed terms. Generally, the Australian Government's maximum exposure to credit risk in relation to each class of advances paid and receivables is the carrying amount of those assets as indicated in the consolidated balance sheet and the majority of Australian Government entities do not have significant exposures to concentrations of credit risk.

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

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

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

Reconciliation of the impairment loss allowance ^(a)

	General Government		Australian Government	
	Advances and loans	Goods and services and other		
			\$m	\$m
Opening balance at 1 July 2017	(291)	(935)	(292)	(960)
<i>less</i> Amounts written off	(18)	(29)	(18)	(29)
<i>less</i> Amounts recovered and reversed	3	(74)	3	(75)
<i>plus</i> Increase/decrease recognised in operating result	(122)	(172)	(122)	(161)
<i>plus</i> Other movement	(7)	17	(7)	(9)
Closing balance at 30 June 2018	(405)	(987)	(406)	(1,026)

Reconciliation of the impairment loss allowance (continued)^(a)

	General Government		Australian Government	
	Advances and loans	Goods and services and other	Advances and loans	Goods and services and other
		\$m		\$m
Impairment loss allowance at 30 June 2018 under AASB 139	(405)	(987)	(406)	(1,026)
Impairment adjustments recognised at 1 July 2018	179	(3)	179	(6)
Impairment loss allowance at 1 July 2018 under AASB 9	(226)	(990)	(227)	(1,032)
/less Amounts written off	(22)	(146)	(22)	(168)
/less Amounts recovered and reversed	1	(2)	1	(2)
/plus Increase/decrease recognised in operating result	(50)	(70)	(50)	(97)
/plus Other movement	(9)	-	(9)	-
Closing balance at 30 June 2019	(264)	(912)	(265)	(959)

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

Accounting judgement and estimate – Credit risk on fair value advances

The largest of the fair value loans are student loans, including those under HELP. The recoverability of these loans is factored into the annual fair value actuarial assessment. The actuarial assessment takes into account future income projections, the pattern and timing of repayments and debt not expected to be recovered (DNER). The gross nominal value of HELP loans was \$63,312 million at 30 June 2019 (2018: \$60,040 million) and no collateral is held. The following table shows the changes in the fair value of HELP loans due to credit risk.

	2019	2018
	\$m	\$m
Fair value changes (decreases) due to credit risk:		
During the period	1,021	1,258
Prior periods (cumulative)	14,705	17,381
Cumulative change	15,726	18,639

It is important to recognise that the above credit risk impacts relate to the outstanding debt as at 30 June each year. The lower cumulative impact as at 30 June 2019, compared to 30 June 2018, reflects a number of factors including legislative changes passed in 2018-19 which implemented a new set of repayment thresholds from 1 July 2019 and the indexing of thresholds in line with movements in the consumer price index (CPI).

Collateral

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

Accounting judgement and estimate — Fair value

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

	General Government		Australian Government	
	2019	2018	2019	2018
	\$m	\$m	\$m	\$m
Advances paid and receivables at fair value				
Level 2	1,036	810	1,397	1,238
Level 3	51,722	40,613	53,022	41,838
Total fair value	52,758	41,423	54,419	43,076

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

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

	General Government		Australian Government	
	2019	2018	2019	2018
	\$m	\$m	\$m	\$m
Level 3 advances paid and receivables				
Opening balance at 1 July	40,613	36,559	41,838	37,787
Purchases/payments	6,975	6,907	7,224	7,093
Sales/repayments	(3,362)	(2,735)	(3,593)	(2,957)
<i>Gains/(losses) recognised in the operating result</i>	7,338	(118)	7,396	(85)
Transfers in/(out) of Level 3	158	-	157	-
Total fair value	51,722	40,613	53,022	41,838

Note 5B: Investments, loans and placements

	General Government		Australian Government	
	2019	2018	2019	2018
	\$m	\$m	\$m	\$m
Gold	-	-	5,158	4,344
Deposits	34,609	49,554	33,486	29,069
Government securities(a)	-	-	130,776	142,998
International Monetary Fund quota	13,028	12,493	19,198	17,616
Defined benefit superannuation plan assets	-	-	566	827
Collective investment vehicles	76,567	68,720	76,567	68,720
Other interest bearing securities	48,753	44,905	49,717	45,857
Other	14,990	13,840	18,011	16,207
Total investments, loans and placements	187,947	189,512	333,479	325,638
By category of financial assets under AASB 139:				
<i>Amortised cost:</i>				
Loans and receivable		8,469		129,706
Held to maturity		3,422		3,500
<i>Fair value:</i>				
At fair value through profit and loss		163,965		172,516
Available for sale		13,656		14,608
Other(b)		-		5,308
Total by category of financial asset		189,512		325,638
By category of financial assets under AASB 9:				
<i>Amortised cost</i>				
Fair value:				
Fair value through profit and loss		131,225		186,965
Fair value through other comprehensive income		13,319		13,320
Other(b)		89		5,863
Total by category of financial asset		187,947		333,479

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

Objective

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

Recognition and measurement of investments, loans and placements

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

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

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

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

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

Other interest bearing securities are primarily held by the Investment Funds (refer Note 10B) and include negotiable certificates of deposit, mortgage and asset backed securities, bank bills and corporate debt securities.

Investments in CIVs and other interest bearing securities by the Future Fund and Investment Funds are held for the longer term, consistent with each Fund's investment mandate.

Accounting judgement and estimate — Fair value

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

	General Government		Australian Government	
	2019	2018	2019	2018
	\$m	\$m	\$m	\$m
Investments, loans and placements at fair value				
Level 1	5,955	7,319	59,531	66,181
Level 2	46,182	87,483	53,288	42,127
Level 3	92,407	82,819	92,624	83,160
Total fair value(a)	144,544	177,621	205,443	191,468

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

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

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

Investments, loans and placements categorised as Level 3 that are valued using the net assets technique have been based on either the latest available audited accounts of those entities or internal management accounts because this is the most relevant available information at the end of the period.

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

For the IMF quota investment, the value of shares are held in foreign currency and converted to an Australian dollar equivalent for inclusion in the financial statements.

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

	General Government		Australian Government	
	2019	2018	2019	2018
	\$m	\$m	\$m	\$m
Level 3 investments, loans and placements				
Opening balance at 1 July	82,819	71,235	83,160	71,348
Purchases/payments	19,907	21,984	19,992	22,205
Sales/repayments	(15,197)	(16,187)	(15,335)	(16,231)
Gains/(losses) recognised in the operating result	4,957	5,823	4,971	5,828
Gains/(losses) recognised in equity	(1)	-	(1)	2
Transfers in/(out) of Level 3	(78)	(36)	(163)	8
Total fair value	92,407	82,819	92,624	83,160

Accounting judgement and estimate — Credit risk

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

- the Future Fund and other Investment Funds' exposure to debt securities issued by domestic banks. The Future Fund utilises credit default swaps for exposure to credit risk. The counterparties for these swaps include major banking firms and their affiliates with exposure managed by utilising multiple counterparties and considering each counterparty's credit rating. The credit risk exposure is concentrated in securities with 'A' ratings. Further detail is provided in the financial statements for the Future Fund Management Agency and Board of Guardians;
- the Public Financial Corporation Sector's exposure on financing and credit facilities extended to non-government clients, including commercial account exposures for the Export Finance and Insurance Corporation (EFIC) and the RBA's exposure to the issuers of held securities, banks with which the RBA deposits funds and counterparties that are yet to settle transactions; and
- the Australian Office of Financial Management's (AOFM) financial investments including loans to state and territory governments, deposits and securities.

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

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

Note 5C: Equity investments

	General Government		Australian Government	
	2019	2018	2019	2018
	\$m	\$m	\$m	\$m
Investments in private funds and corporations	63,644	55,003	64,191	55,467
Investment in public corporations	57,243	55,338	-	-
Equity accounted investments	3,557	3,249	3,728	3,625
Total equity investments	124,444	113,590	67,919	59,092
By category of financial assets under AASB 139:				
<i>Fair value:</i>				
At fair value through profit and loss		50,697		50,697
Available for sale		59,644		4,770
Other		3,249		3,625
Total by category of financial asset		113,590		59,092
By category of financial assets under AASB 9:				
<i>Fair value:</i>				
Fair value through profit and loss	59,191		59,262	
Fair value through other comprehensive income	61,696		4,929	
Other	3,557		3,728	
Total by category of financial asset		124,444		67,919

Objective

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

Recognition and measurement of equity investments

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

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

Accounting judgement and estimate — Fair value

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

	General Government		Australian Government	
	2019	2018	2019	2018
	\$m	\$m	\$m	\$m
Equity investments at fair value				
Level 1	57,963	49,390	57,963	49,390
Level 2	754	8,656	763	1,742
Level 3	62,170	52,295	5,465	4,335
Total fair value	120,887	110,341	64,191	55,467

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

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

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

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

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

	General Government		Australian Government	
	2019	2018	2019	2018
	\$m	\$m	\$m	\$m
Level 3 equity investments				
Opening balance at 1 July	52,295	50,050	4,335	3,795
Purchases/Payments	2,330	2,753	2,370	2,772
Sales/Repayments	(55)	(23)	(55)	(23)
Gains/(Losses) recognised in the operating result	419	375	430	375
Gains/(Losses) recognised in equity	273	(850)	(1,609)	(2,574)
Transfers in/(out) of level 3(a)	6,908	(10)	(6)	(10)
Total fair value	62,170	52,295	5,465	4,335

- (a) In 2018-19, the General Government Sector investment in Snowy Hydro Limited (SHL) was transferred from Level 2 into Level 3 of the fair value hierarchy with fair value based on discounted cash flows. The comparative investment value was informed by the Government acquisition of SHL on 29 June 2018 as disclosed in Note 9.

Note 5D: Land and buildings, plant, equipment and infrastructure, heritage and cultural assets and intangibles

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

Australian Government Item	Land \$m	Buildings \$m	Other plant, military equipment and equipment infrastructure \$m	Heritage and cultural assets \$m	Investment property \$m	Computer software \$m	Other intangibles \$m	Total \$m
Measurement basis	Fair value	Fair value	Fair value	Fair value	Fair value	Fair value	Cost	Cost
Net book value at 30 June 2019								
Gross book value	13,628	34,011	69,264	73,819	11,798	340	16,680	6,704 226,244
Accumulated depreciation/amortisation	-	(3,985)	(2,671)	(12,563)	(103)	-	(9,781)	(872) (29,975)
Net book value at 30 June 2019	13,628	30,026	66,593	61,256	11,695	340	6,899	5,832 196,269
Assets at fair value by level of the fair value hierarchy:								
Level 2	11,773	4,523	-	2,863	7,673	340	-	- 27,172
Level 3	1,855	25,503	66,593	58,393	4,022	-	-	- 156,366
Fair value at 30 June 2019	13,628	30,026	66,593	61,256	11,695	340	-	- 183,538
Net book value at 30 June 2018								
Gross book value	13,316	32,363	63,568	63,216	11,775	341	15,055	5,915 205,549
Accumulated depreciation/amortisation	-	(3,290)	(1,548)	(8,527)	(156)	-	(8,648)	(751) (22,920)
Net book value at 30 June 2018	13,316	29,073	62,020	54,689	11,619	341	6,407	5,164 182,629
Assets at fair value by level of the fair value hierarchy:								
Level 2	11,478	4,326	-	2,065	7,640	341	-	- 25,850
Level 3	1,838	24,747	62,020	52,624	3,979	-	-	- 145,208
Fair value at 30 June 2018	13,316	29,073	62,020	54,689	11,619	341	-	- 171,058

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

	Land \$m	Buildings \$m	Specialist military equipment \$m	Other plant, equipment and infrastructure \$m	Heritage and cultural assets \$m	Investment property \$m	Computer software \$m	Other intangibles \$m	Total \$m
Measurement basis	Fair value	Fair value	Fair value	Fair value	Fair value	Fair value	Cost	Cost	
Net book value at 30 June 2019									
Gross book value	11,834	30,777	69,264	19,192	11,798	160	11,440	4,814	159,279
Accumulated depreciation/amortisation	-	(3,501)	(2,671)	(3,801)	(103)	-	(6,979)	(505)	(17,560)
Net book value at 30 June 2019	11,834	27,276	66,593	15,391	11,695	160	4,461	4,309	141,719
Assets at fair value by level of the fair value hierarchy:									
Level 2	10,304	3,422	-	1,051	7,673	160	-	-	22,610
Level 3	1,530	23,854	66,593	14,340	4,022	-	-	-	110,339
Fair value at 30 June 2019	11,834	27,276	66,593	15,391	11,695	160	-	-	132,949
Net book value at 30 June 2018									
Gross book value	11,598	29,247	63,568	18,846	11,775	173	10,396	4,339	149,942
Accumulated depreciation/amortisation	-	(2,925)	(1,548)	(3,313)	(156)	-	(6,386)	(454)	(14,782)
Net book value at 30 June 2018	11,598	26,322	62,020	15,533	11,619	173	4,010	3,885	135,160
Assets at fair value by level of the fair value hierarchy:									
Level 2	10,138	3,395	-	1,189	7,640	173	-	-	22,535
Level 3	1,460	22,927	62,020	14,344	3,979	-	-	-	104,730
Fair value at 30 June 2018	11,598	26,322	62,020	15,533	11,619	173	-	-	127,265

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

Australian Government	Land \$m	Buildings \$m	Specialist military equipment and infrastructure \$m	Other plant, military equipment and infrastructure \$m	Heritage and cultural assets \$m	Investment property \$m	Computer software \$m	Other intangibles \$m	Total \$m
Net book value at 1 July 2017	12,237	28,112	58,573	42,475	11,630	281	6,023	4,337	163,668
Additions:									
Purchases and entity acquisitions	476	2,421	7,510	15,099	68	65	358	973	26,970
Acquisition by finance lease	1	41	-	1,241	-	-	-	-	1,283
Internally developed	-	-	-	-	-	-	-	-	1,564
Revaluations: write-ups	1,037	770	970	42	(46)	14	-	-	2,787
Depreciation/amortisation expense(a)	-	(1,680)	(4,448)	(3,942)	(95)	-	(1,516)	(116)	(11,797)
Recoverable amount write-downs	(3)	(58)	(361)	(117)	(5)	(12)	(62)	(98)	(716)
Reversal of write-downs	-	3	14	18	1	-	2	34	72
Other movements	(31)	(241)	(208)	(8)	68	87	70	35	(228)
Disposals	(401)	(295)	(30)	(119)	(2)	(94)	(32)	(1)	(974)
As at 30 June 2018	13,316	29,073	62,020	54,689	11,619	341	6,407	5,164	182,629
Additions:									
Purchases and entity acquisitions	261	2,096	8,592	9,524	54	20	448	595	21,590
Acquisition by finance lease	-	3	-	1,103	-	-	-	-	1,106
Internally developed	-	-	-	-	-	-	-	-	1,420
Revaluations: write-ups	307	841	1,179	1,685	34	14	-	5	4,065
Depreciation/amortisation expense(a)	-	(1,705)	(4,620)	(4,634)	(78)	-	(1,629)	(181)	(12,847)
Recoverable amount write-downs	(32)	(116)	(201)	(58)	(2)	-	(54)	(35)	(1,021)
Reversal of write-downs	-	11	33	14	-	-	1	66	125
Other movements	(189)	(104)	(25)	(196)	69	(18)	337	219	93
Disposals	(35)	(73)	(385)	(348)	(1)	(17)	(31)	(1)	(891)
As at 30 June 2019	13,628	30,026	66,593	61,256	11,695	340	6,899	5,832	196,269

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

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

General Government	Land \$m	Buildings \$m	Specialist military equipment \$m	Other plant, military equipment and infrastructure \$m	Heritage and cultural assets \$m	Investment property \$m	Computer software \$m	Other intangibles \$m	Total \$m
Net book value at 1 July 2017	11,002	25,692	58,573	15,013	11,630	112	3,853	3,599	129,474
Additions:									
Purchases and entity acquisitions	55	2,044	7,510	2,224	68	65	269	408	12,643
Acquisition by finance lease	1	40	-	96	-	-	-	-	137
Internally developed	-	-	-	-	-	-	-	-	953
Revaluations: write-ups	923	604	970	29	(46)	4	-	-	2,484
Depreciation/amortisation expense(a)	-	(1,521)	(4,448)	(1,724)	(95)	-	(999)	(90)	(8,877)
Recoverable amount write-downs	(3)	(58)	(361)	(91)	(5)	-	(62)	(59)	(639)
Reversal of write-downs	-	3	14	18	1	-	2	34	72
Other movements	19	(198)	(208)	64	68	86	26	(6)	(149)
Disposals	(399)	(284)	(30)	(96)	(2)	(94)	(32)	(1)	(938)
As at 30 June 2018	11,598	26,322	62,020	15,533	11,619	173	4,010	3,885	135,160
Additions:									
Purchases and entity acquisitions	255	1,907	8,592	2,061	54	19	371	483	13,742
Acquisition by finance lease	-	3	-	3	-	-	-	-	6
Internally developed	-	-	-	-	-	-	939	-	939
Revaluations: write-ups	208	553	1,179	31	34	3	-	5	2,013
Depreciation/amortisation expense(a)	-	(1,545)	(4,620)	(1,660)	(78)	-	(1,110)	(93)	(9,106)
Recoverable amount write-downs	(32)	(49)	(201)	(43)	(2)	-	(46)	(35)	(408)
Reversal of write-downs	-	11	33	14	-	-	1	66	125
Other movements	(186)	118	(25)	(209)	69	(18)	326	(2)	73
Disposals	(9)	(44)	(385)	(339)	(1)	(17)	(30)	-	(825)
As at 30 June 2019	11,834	27,276	66,593	15,391	11,695	160	4,461	4,309	141,719

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

Objective

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

Recognition and measurement of non-financial assets

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

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

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

Accounting judgement and estimate - Fair value

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

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

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

Notes to the financial statements

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

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

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

Reconciliation for recurring Level 3 fair value measurements

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

Item	General Government						Australian Government			
	Land \$m	Buildings \$m	Specialist military equipment \$m	Other IPE \$m	Heritage & cultural assets \$m	Land \$m	Buildings \$m	Specialist military equipment \$m	Other IPE \$m	Heritage & cultural assets \$m
Level 3 fair value at 1 July 2017	1,189	22,059	58,573	13,992	4,009	1,492	23,646	58,573	40,722	4,009
Additions	3	1,905	7,510	1,794	40	32	2,236	7,510	15,431	41
Disposals	-	(15)	(30)	(42)	-	-	(15)	(30)	(55)	-
Gains/(losses) recognised in net surplus	-	(1,651)	(5,003)	(1,561)	(68)	-	(1,751)	(5,003)	(3,674)	(69)
Gains/(losses) recognised in equity	127	360	970	1	(90)	174	469	970	11	(90)
Transfers in/(out) of level 3	141	269	-	160	88	140	162	-	189	88
As at 30 June 2018	1,460	22,927	62,020	14,344	3,979	1,838	24,747	62,020	52,624	3,979
Additions	6	1,760	8,592	1,775	33	6	1,862	8,592	9,469	33
Disposals	-	(13)	(385)	(25)	(1)	(17)	(14)	(385)	(39)	(1)
Gains/(losses) recognised in net surplus	(1)	(1,347)	(4,813)	(1,001)	(46)	(1)	(1,503)	(4,813)	(4,413)	(46)
Gains/(losses) recognised in equity	23	331	1,179	(686)	21	37	498	1,179	874	21
Transfers in/(out) of level 3	42	196	-	(67)	36	(8)	(87)	-	(122)	36
As at 30 June 2019	1,530	23,854	66,593	14,340	4,022	1,855	25,503	66,593	58,393	4,022

Contractual capital commitments

At the reporting date, commitments for capital works comprised:

	General Government		Australian Government	
	2019	2018	2019	2018
	\$m	\$m	\$m	\$m
Capital commitments				
Buildings	1,543	1,714	2,118	2,004
Specialist military equipment	22,860	18,259	22,860	18,259
Other plant, equipment and intangibles	904	2,235	11,850	9,430
Total capital commitments	25,307	22,208	36,828	29,693

Leased assets

Australian Government entities lease assets under a number of finance leases. As at 30 June 2019, the carrying value of leased assets included \$1,096 million in land and buildings (2018: \$1,251 million) and \$7,074 million in plant and equipment (2018: \$6,331 million).

GGS entities lease assets under a number of finance leases. As at 30 June 2019 the carrying value of leased assets included \$1,096 million in land and buildings (2018: \$1,234 million) and \$299 million in plant and equipment (2018: \$381 million). Refer Note 6D for accounting policy disclosure on finance leases.

Assets under construction

Australian Government assets under construction include \$1,729 million (2018: \$2,668 million) in land and buildings, \$14,091 million (2018: \$16,469 million) in specialist military equipment and \$7,318 million (2018: \$5,842 million) in other plant, equipment and infrastructure (including computer software and intangibles).

GGS assets under construction include \$1,728 million (2018: \$2,567 million) in land and buildings, \$14,091 million (2018: \$16,469 million) in specialist military equipment and \$2,728 million (2018: \$2,389 million) in other plant, equipment and infrastructure (including computer software and intangibles).

Note 5E: Inventories

	General Government		Australian Government	
	2019	2018	2019	2018
	\$m	\$m	\$m	\$m
Inventories held for sale				
Finished goods(a)	686	620	810	738
Raw materials and stores	71	69	84	93
Work in progress	385	446	400	452
Total inventories held for sale	1,142	1,135	1,294	1,283
Consumable stores and inventories held for distribution	7,804	7,510	7,851	7,548
Total inventories	8,946	8,645	9,145	8,831

(a) Australian Government finished goods include \$243 million valued at net realisable value (2018: \$245 million). GGS finished goods include \$193 million valued at net realisable value (2018: \$196 million).

Objective

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

Recognition and measurement of inventories

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

Australian Government inventories include \$2,353 million (2018: \$2,244 million) expected to be consumed or sold within the next 12 months. GGS inventories include \$2,154 million (2018: \$2,058 million) expected to be consumed or sold within the next 12 months.

Note 5F: Other non-financial assets

	General Government		Australian Government	
	2019	2018	2019	2018
	\$m	\$m	\$m	\$m
Biological assets	27	36	27	36
Assets held for sale	293	145	302	256
Prepayments	4,254	3,258	4,775	3,615
Other	35	32	35	36
Total other non-financial assets	4,609	3,471	5,139	3,943

Note 5G: Assets by function

	General Government		Australian Government	
	2019	2018	2019	2018
	\$m	\$m	\$m	\$m
General public services	273,047	248,450	271,171	247,210
Defence	107,162	100,253	106,845	99,952
Public order and safety	3,382	3,987	3,382	3,987
Education	54,827	43,812	54,827	43,812
Health	2,467	2,561	2,461	2,631
Social security and welfare	9,696	9,212	9,411	8,905
Housing and community amenities	4,951	4,856	5,232	4,856
Recreation and culture	16,229	16,119	16,229	16,119
Fuel and energy	15,299	10,871	15,410	12,279
Agriculture, forestry and fishing	5,674	5,219	5,674	5,219
Mining, manufacturing and construction	653	531	2,638	2,463
Transport and communication	31,975	29,235	48,664	43,471
Other economic affairs	33,657	30,016	151,424	161,010
Other purposes(a)	45,416	58,448	43,941	37,414
Total assets	604,435	563,570	737,309	689,328

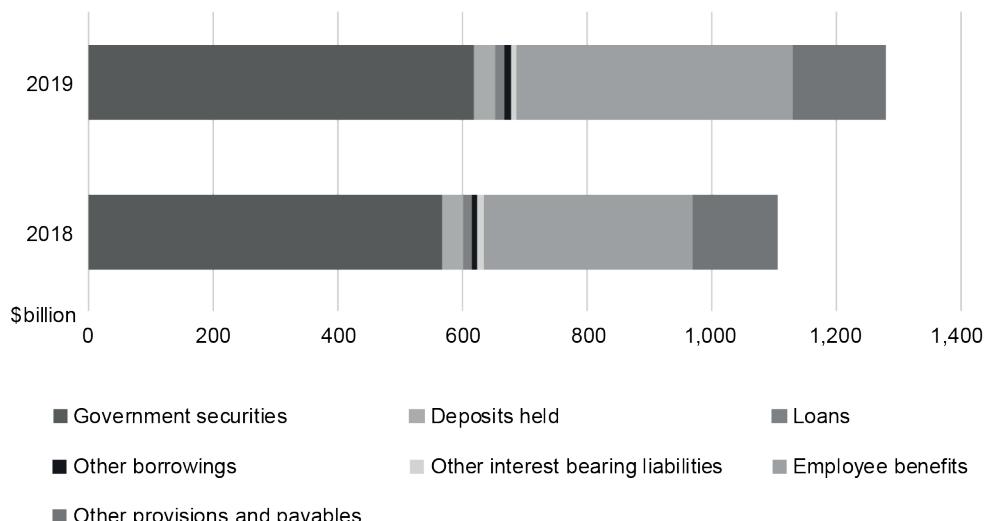
(a) Cash and deposits that are not allocated to other functions are included in the 'other purposes' function.

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

Note 6: Liabilities

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

Liabilities composition



Interest bearing liabilities

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

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

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

Financial liabilities at fair value through profit or loss	Other liabilities
Financial liabilities, including derivative liabilities, designated at fair value through profit or loss in order to eliminate or reduce a measurement or recognition inconsistency or where a group of financial assets or liabilities is managed and evaluated on a fair value basis.	Non-derivative financial liabilities measured at amortised cost

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

Provisions and payables

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

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

Note 6A: Deposit liabilities

	General Government		Australian Government	
	2019 \$m	2018 \$m	2019 \$m	2018 \$m
Exchange settlement funds	-	-	29,490	28,546
Drawing accounts held with the RBA	-	-	1,038	523
State governments	-	-	310	149
Monies held in trust	365	369	365	369
Foreign governments	-	-	2,328	3,766
Other	23	12	525	488
Total deposit liabilities	388	381	34,056	33,841

Objective

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

Recognition and measurement of deposits held

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

Liquidity risk on deposits held

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

	General Government		Australian Government	
	2019	2018	2019	2018
	\$m	\$m	\$m	\$m
Exposure to liquidity risk on deposits held				
On demand	363	367	33,311	33,403
1 year or less	-	2	720	426
1 to 5 years	25	7	25	7
More than 5 years	-	5	-	5
Total	388	381	34,056	33,841

Note 6B: Government securities

	General Government		Australian Government	
	2019	2018	2019	2018
	\$m	\$m	\$m	\$m
Treasury bonds	566,662	516,869	566,408	516,615
Treasury notes	2,993	2,492	2,993	2,492
Treasury indexed bonds	49,812	48,548	49,812	48,548
Other(a)	6,901	7,541	6	6
Total government securities	626,368	575,450	619,219	567,661

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

Objective

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

Recognition and measurement of government securities

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

Liquidity risk on government securities

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

	General Government		Australian Government	
	2019 \$m	2018 \$m	2019 \$m	2018 \$m
Exposure to liquidity risk on government securities				
1 year or less	55,535	53,023	48,087	45,670
1 to 5 years	230,511	254,090	229,618	252,636
5 to 10 years	251,918	221,441	250,948	220,519
10 to 15 years	78,549	92,642	78,549	92,642
More than 15 years	66,817	55,970	66,817	55,970
Total	683,330	677,166	674,019	667,437

The reported value of AGS is exposed to movements in market interest rates. Unrealised losses from the remeasurement of Government securities amounted to \$43,550 million in 2018-19, increasing the AGS liability. This compares to unrealised gains of \$581 million in 2017-18 with most of the current year losses attributable to changes in the market value of Treasury Bonds. Further detail on interest rate risk is provided in Note 10B.

Note 6C: Loans

	General Government		Australian Government	
	2019 \$m	2018 \$m	2019 \$m	2018 \$m
Bills of exchange and promissory notes				
Bills of exchange and promissory notes	9,988	10,010	11,033	10,912
Bonds (non-Treasury)	-	-	2,691	2,390
Loans	392	458	2,516	1,879
Total loans	10,380	10,468	16,240	15,181
By maturity:				
No more than 12 months	170	130	1,420	1,112
More than 12 months	10,210	10,338	14,820	14,069
Total by maturity	10,380	10,468	16,240	15,181
By category and valuation of financial liability:				
Amortised cost	10,380	10,468	13,469	12,539
Fair value:				
Level 2	-	-	2,724	2,533
Level 3	-	-	47	109
Total by category and valuation	10,380	10,468	16,240	15,181

Objective

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

Recognition and measurement of loans

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

Accounting judgements and estimates – Fair value

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

Liquidity risk on loans

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

	General Government		Australian Government	
	2019 \$m	2018 \$m	2019 \$m	2018 \$m
Exposure to liquidity risk on loans				
On demand	11	-	19	-
1 year or less	277	136	2,057	1,615
1 to 5 years	428	235	3,513	2,603
More than 5 years	10,248	10,097	11,232	11,000
Total	10,964	10,468	16,821	15,218

Note 6D: Other borrowings

	General Government		Australian Government	
	2019 \$m	2018 \$m	2019 \$m	2018 \$m
Finance lease liabilities as at the reporting date are reconciled to the lease liability as follows:				
Not later than one year	257	265	1,254	1,064
Later than one year and not later than five years	1,009	1,007	4,351	3,772
Later than five years	2,949	2,980	21,716	19,111
Minimum lease payments	4,215	4,252	27,321	23,947
<i>less</i> Future finance charges	2,684	2,728	17,157	15,140
Total finance lease liabilities	1,531	1,524	10,164	8,807
Finance lease liabilities maturity schedule:				
No more than 12 months	56	96	299	268
More than 12 months	1,475	1,428	9,865	8,539
Total finance lease liabilities by maturity	1,531	1,524	10,164	8,807

Objective

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

Recognition and measurement of other borrowings (finance leases)

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

Note 6E: Other interest bearing liabilities

	General Government		Australian Government	
	2019	2018	2019	2018
	\$m	\$m	\$m	\$m
Swap principal payable	650	1,718	1,922	2,398
Amounts outstanding under repurchase agreements	-	-	350	1,797
Special reserve - IMF special drawing rights	6,111	5,860	6,111	5,860
Finance lease incentives	2	11	2	11
Other	-	-	1,084	694
Total other interest bearing liabilities	6,763	7,589	9,469	10,760
By category and valuation of financial liability:				
Amortised cost	6,112	6,028	7,548	8,536
Fair value:				
Level 1	2	12	153	69
Level 2	649	1,549	1,640	2,086
Level 3	-	-	128	69
Total by category and valuation	6,763	7,589	9,469	10,760

Objective

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

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

Recognition and measurement of other interest bearing liabilities

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

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

Accounting judgements and estimates – Fair value

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

Liquidity risk on other interest bearing liabilities

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

	General Government		Australian Government	
	2019	2018	2019	2018
	\$m	\$m	\$m	\$m
Exposure to liquidity risk on other debt				
1 year or less	652	1,726	2,801	5,173
1 to 5 years	-	2	377	2,502
More than 5 years	6,111	5,861	6,373	6,441
Total	6,763	7,589	9,551	14,116

Note 6F: Employee benefits

	General Government		Australian Government	
	2019	2018	2019	2018
	\$m	\$m	\$m	\$m
Total superannuation liability				
Total superannuation liability	415,286	313,552	416,046	313,970
Other employee liabilities				
Leave and other entitlements	8,633	7,988	10,075	9,320
Accrued salaries and wages	281	271	435	406
Workers compensation claims	2,026	2,550	2,229	2,740
Separations and redundancies	135	156	228	293
Military compensation	14,651	8,558	14,651	8,558
Other	364	290	472	381
Total other employee liabilities	26,090	19,813	28,090	21,698
Total employee and superannuation liabilities				
Total employee and superannuation liabilities	441,376	333,365	444,136	335,668
Employee benefits maturity schedule(a):				
No more than 12 months	14,160	13,456	15,603	14,771
More than 12 months	427,216	319,909	428,533	320,897
Total employee benefits by maturity	441,376	333,365	444,136	335,668

- (a) Note 10C provides the average expected maturity for each of the Australian Government's large defined benefit superannuation schemes.

Objective

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

Recognition and measurement of employee benefits

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

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

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

Accounting judgements and estimates — employee benefits

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

The provision for workers compensation claims represents an estimate of the present value of future payments in respect of claims for events occurring on or before 30 June 2019 with a 75 per cent probability of sufficiency. The expected future payments are discounted to present value using a risk free rate. The expected future payments include claims reported but not yet paid, claims incurred but not yet reported, and anticipated claims handling costs. The 2018-19 annual report for Comcare includes greater detail on this provision.

The military compensation provision represents an estimate of the present value of future payments in respect of claims under the *Military Rehabilitation and Compensation Act 2004* and the *Safety, Rehabilitation and Compensation Act 1988* arising from service rendered before 30 June 2019. The provision is calculated by discounting future payments using a yield curve derived from the yields on Commonwealth bonds of various durations as at 30 June 2019.

The growth in the military compensation provision is the net effect of changes in assumptions as a result of actuarial analysis of new data that was not available as at 30 June 2018, the allowance for liabilities incurred or met over 2018-19 and the impact of low interest rates on the discounting of future payment projections. As a 'long tail' provision, the assumptions underpinning the provision estimate contain inherent uncertainties. The 2018-19 DVA annual report details the assumptions and areas of uncertainty underpinning the actuarial estimation of the military provision.

Note 6G: Other payables

	General Government		Australian Government	
	2019 \$m	2018 \$m	2019 \$m	2018 \$m
Supplier payables				
Trade creditors and accrued expenses	6,028	4,767	9,334	7,748
Operating lease rental payable	523	481	523	481
Personal benefits - indirect	956	719	956	719
Other creditors	764	1,580	2,339	2,913
Total supplier payables	8,271	7,547	13,152	11,861
Total personal benefits payable - direct	2,994	2,758	2,994	2,758
Total subsidies payable	630	602	630	602
Grants payable				
State and territory governments	163	607	163	607
Private sector	761	573	761	573
Overseas	1,566	1,879	1,566	1,879
Other	252	325	260	325
Total grants payable	2,742	3,384	2,750	3,384
Other payables				
Unearned income	1,339	966	1,951	1,394
Other	1,954	1,541	2,034	1,634
Total other payables	3,293	2,507	3,985	3,028
Total payables	17,930	16,798	23,511	21,633
By category and valuation of financial liability:				
Amortised cost - statutory liability	3,078	2,864	3,078	2,864
Amortised cost	12,088	11,285	17,051	15,686
Fair value:				
Level 3	1,425	1,683	1,431	1,689
Unearned income	1,339	966	1,951	1,394
Total by category and valuation	17,930	16,798	23,511	21,633

Objective

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

Recognition and measurement of other payables

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

Accounting judgements and estimates – Fair value

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

	General Government		Australian Government	
	2019 \$m	2018 \$m	2019 \$m	2018 \$m
Level 3 payables				
Opening balance at 1 July	1,683	1,964	1,689	1,974
Sales/repayments	(517)	(387)	(517)	(388)
Gains/(losses) recognised in the operating result	259	106	259	103
Total fair value	1,425	1,683	1,431	1,689

Liquidity risk on other payables

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

With the exception of grants payable to multilateral aid organisations, grant and subsidies payable at 30 June 2019 are for amounts contractually due within the next twelve months. As such, they are not subject to discounting on recognition in the financial statements.

The maturity profile for multilateral grants is as follows:

	General Government		Australian Government	
	2019	2018	2019	2018
	\$m	\$m	\$m	\$m
Exposure to other multilateral grants payable				
1 year or less	204	291	204	291
1 to 5 years	992	1,052	992	1,052
More than 5 years	229	340	229	340
Total	1,425	1,683	1,425	1,683

Note 6H: Other provisions

	General Government		Australian Government	
	2019	2018	2019	2018
	\$m	\$m	\$m	\$m
Australian currency on issue	-	-	80,024	75,565
Other provisions				
Grant provisions	8,738	7,877	8,738	7,877
Provision for outstanding benefits and claims	21,588	17,127	23,114	18,428
Provision for tax refunds	3,775	3,493	3,775	3,493
Provision for restoration, decommissioning and makegood	3,030	2,616	3,414	2,918
Subsidy provisions	4,074	3,901	4,074	3,901
Other	1,658	1,020	2,008	1,333
Total other provisions	42,863	36,034	45,123	37,950
Total provisions	42,863	36,034	125,147	113,515

Objective

Australian banknote currency is issued by the RBA. The RBA's objective in issuing Australian note currency is to maintain public confidence in the supply, security and quality of Australian banknotes. The provisions for outstanding benefits and claims, taxation refunds and for subsidies are for amounts to which recipients are entitled under legislation, but which are not yet payable. This includes tax, social security and health legislation. Grant provisions are typically incurred in pursuit of government policy objectives, and include the provision for unfunded university superannuation and provisions for recovery from identified disasters.

The provision for restoration, decommissioning and make good arises where the Government has a legal or constructive obligation to remediate a site, including Defence sites and sites on Antarctica and sub-Antarctic Macquarie Island.

Recognition and measurement of other provisions

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

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

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

Reconciliation of movement in provisions

	General Government 2019 \$m	Australian Government 2019 \$m
Balance of provisions at 1 July	36,034	113,515
Provisions made during the year	22,524	27,494
Provisions used during the year	(14,868)	(15,140)
Provisions remeasured, reversed or unwound during the year	(827)	(722)
Balance of provisions at 30 June	42,863	125,147

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

	General Government		Australian Government	
	2019	2018	2019	2018
	\$m	\$m	\$m	\$m
Financial assets				
Financial assets	163	27	1,009	251
Administered investments	1,090	(896)	75	264
Total financial assets	1,253	(869)	1,084	515
Non-financial assets				
Land	210	929	309	1,052
Buildings	551	591	839	761
Specialist military equipment	1,179	970	1,179	970
Other plant, equipment and infrastructure	38	22	1,695	37
Heritage and cultural assets	33	(50)	33	(50)
Provision for restoration, decommissioning and makegood	(117)	(42)	(117)	(42)
Intangibles	5	-	5	-
Total non-financial assets	1,899	2,420	3,943	2,728
Total revaluation increases/(decreases) in other comprehensive income	3,152	1,551	5,027	3,243

Note 8: Reconciliation of cash

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

		General Government		Australian Government	
		2019	2018	2019	2018
		\$m	\$m	\$m	\$m
Net operating balance		8,843	(4,159)	3,258	(8,382)
<i>less</i>	Revenues not providing cash				
	Other non-cash revenues	3,040	2,244	3,205	2,439
	Total revenues not providing cash	3,040	2,244	3,205	2,439
<i>plus</i>	Expenses not requiring cash				
	Increase in employee entitlements	6,734	10,030	6,378	9,214
	Depreciation and amortisation expenses	9,013	8,792	12,668	11,684
	Mutually agreed write-downs	1,243	1,996	1,243	1,996
	Other non-cash expenses	1,224	890	2,068	552
	Total expenses not requiring cash	18,214	21,708	22,357	23,446
<i>plus</i>	Cash provided by working capital items				
	(Increase)/decrease in receivables	(10,459)	(11,195)	(10,388)	(12,118)
	(Increase)/decrease in inventories	(637)	(598)	(655)	(649)
	(Increase)/decrease in other financial assets	694	(419)	1,342	(767)
	(Increase)/decrease in other non-financial assets	(442)	100	(596)	105
	Increase/(decrease) in benefits, subsidies and grants payable	247	1,131	255	1,130
	Increase/(decrease) in supplier payables	1,561	239	1,938	916
	Increase/(decrease) in other provisions and payables	6,271	1,117	6,772	3,193
	Total cash provided/(used by) working capital items	(2,765)	(9,625)	(1,332)	(8,190)
	equals Net cash from/(used by) operating activities	21,252	5,680	21,078	4,435

Recognition, measurement and classification of cash and deposits

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

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

Reconciliation of changes in liabilities arising from financing activities

The following table shows changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes^(a).

Australian Government	Opening balance at 1 July 2017	Cash flows	Non-cash movements		Closing balance at 30 June 2018
			Acquisition	Other movements	
Australian currency on issue	73,623	1,942	-	-	75,565
Government securities	535,446	31,576	-	-	567,661
Loans	3,384	(308)	709	252	4,037
Other borrowings	7,525	(414)	1,281	425	8,817
Deposits held	34,761	(904)	-	(16)	33,841
Other	(7)	-	-	(7)	-
Total	654,732	31,892	1,990	1,300	689,914

Australian Government	Opening balance at 1 July 2018	Cash flows	Non-cash movements		Closing balance at 30 June 2019
			Acquisition	Other movements	
Australian currency on issue	75,565	4,459	-	-	80,024
Government securities	567,661	8,691	-	42,867	619,219
Loans	4,037	742	-	164	4,943
Other borrowings	8,817	(445)	1,107	685	10,164
Deposits held	33,841	(327)	-	542	34,056
Other	(7)	(6)	-	16	3
Total	689,914	13,114	1,107	44,274	748,409

(a) The comparative table has been amended following further analysis of liabilities arising from financing and investing activities.

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

General Government Sector	Opening balance at 1 July 2017	Cash flows	Non-cash movements		Closing balance at 30 June 2018
			Acquisition	Other movements	
Australian currency on issue	-	-	-	-	-
Government securities	547,254	27,556	-	-	575,450
Loans	545	(205)	-	-	30
Other borrowings	1,628	(117)	136	(112)	1,535
Deposits held	218	163	-	-	381
Other	-	-	-	-	-
Total	549,645	27,397	136	218	577,396
General Government Sector	Opening balance at 1 July 2018	Cash flows	Non-cash movements		Closing balance at 30 June 2019
			Acquisition	Other movements	
Australian currency on issue	-	-	-	-	-
Government securities	575,450	8,052	-	-	42,866
Loans	30	(465)	-	-	461
Other borrowings	1,535	(59)	6	50	26
Deposits held	381	5	-	2	1,532
Other	-	-	-	3	388
Total	577,396	7,533	6	43,382	628,317

Note 9: Business combinations

There are no significant business combinations for the year ended 30 June 2019.

In the comparative year ended 30 June 2018, the Australian Government acquired full ownership of Snowy Hydro Limited (SHL) from the New South Wales (NSW) and Victorian Governments, increasing the Australian Government's ownership from 13 per cent to 100 per cent. SHL has been classified as a Public Non-Financial Corporation.

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

The Australian Government's existing 13 per cent interest in SHL was valued at \$899 million at the acquisition date. Combined with the equity consideration paid, the Australian Government's 100 per cent investment in SHL was valued at \$7,013 million on acquisition.

The fair values of the separately identified assets acquired and liabilities assumed at the date of acquisition was \$6,426 million. This balance has changed by \$52 million compared to the amount published in the 2017-18 CFS as reported in Note 1.5.

The difference of \$587 million between the consideration paid and the net identifiable assets and liabilities of SHL was recorded as goodwill and other intangibles and is subject to annual impairment assessment. No impairment was recorded in 2018-19.

As SHL was acquired on 29 June 2018, its contribution to the Australian Government's comparative consolidated statement of comprehensive income for the year ended 30 June 2018 was immaterial. The Australian Government's previous 13 per cent interest in SHL's 2017-18 financial performance (\$27 million) was reported as an 'other economic flow'. SHL reported an operating result of \$210 million in 2017-18 with revenue from the sales of goods of \$2,589 million.

Note 10: Risks

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

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

Consistent with the amounts recognised in the financial statements, the disclosures are based on the policies, events and arrangements up to the reporting date and do not include policy decisions announced in the 2018-19 Budget papers which have not yet been enacted or implemented.

Note 10A: Contingencies

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

Indemnities, guarantees and warranties

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

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

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

	General Government		Australian Government	
	2019	2018	2019	2018
	\$m	\$m	\$m	\$m
Opening balance as at 1 July	39,021	35,117	40,261	36,336
Increases	2,628	3,380	2,771	3,640
Remeasurement	556	562	285	475
Liabilities/assets crystallised	-	(7)	-	(7)
Expired	(43)	(31)	(256)	(183)
As at 30 June	42,162	39,021	43,061	40,261

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

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

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

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

Significant but remote indemnities, guarantees and warranties	Administering portfolio
Financial Claims Scheme – Deposits. Authorised under the <i>Banking Act 1959</i> and guarantees deposits up to \$250,000 at eligible authorised deposit-taking institutions. When last estimated as at 31 December 2018, deposits eligible for coverage under the Financial Claims Scheme were approximately \$920 billion (31 December 2017: \$890 billion).	Treasury
Financial Claims Scheme – Insurance. The Policyholder Compensation Facility established under the <i>Insurance Act 1973</i> provides a mechanism for making payments to eligible beneficiaries with a valid claim against a failed general insurer.	Treasury

The Australian Government has also entered into significant but remote guarantees in respect of nbn Co's financial obligations to Telstra and Optus. Further details are contained in the 2018-19 annual report for the Department of Communications and the Arts. Other guarantees and indemnities considered remote are excluded from this disclosure.

Uncalled shares and capital subscriptions

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

	General Government		Australian Government	
	2019	2018	2019	2018
	\$m	\$m	\$m	\$m
Opening balance as at 1 July	18,770	18,029	18,839	18,094
Remeasurement	1,002	741	1,005	745
As at 30 June	19,772	18,770	19,844	18,839

Claims and proceedings

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

	General Government		Australian Government	
	2019	2018	2019	2018
	\$m	\$m	\$m	\$m
Opening balance as at 1 July	122	132	126	137
Increases	78	13	79	15
Remeasurement	-	10	(1)	12
Liabilities/assets crystallised	(2)	(17)	(3)	(18)
Expired	(65)	(16)	(65)	(20)
As at 30 June	133	122	136	126

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

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

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

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

Remediation and decontamination

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

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

Other contingencies

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

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

	General Government		Australian Government	
	2019	2018	2019	2018
	\$m	\$m	\$m	\$m
Opening balance as at 1 July	6,448	5,417	229,759	198,281
Increases	608	1,776	608	1,776
Remeasurement	274	662	(5,049)	31,109
Liabilities/assets crystallised	(32)	-	(32)	-
Expired	(964)	(1,407)	(964)	(1,407)
As at 30 June	6,334	6,448	224,322	229,759

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

Contingent assets

The following table reconciles the movement in quantifiable contingent assets.

	General Government		Australian Government	
	2019	2018	2019	2018
	\$m	\$m	\$m	\$m
Opening balance as at 1 July	126	141	150	150
Increases	37	30	73	36
Remeasurement	59	25	57	38
Liabilities/assets crystallised	(82)	(68)	(83)	(68)
Expired	(27)	(2)	(37)	(6)
As at 30 June	113	126	160	150

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

Note 10B: Financial instruments

The notes to the balance sheet include information on the classification of financial assets and liabilities under AASB 7 *Financial Instruments - Disclosures*.

For each class of financial assets, the following tables provide disclosure of the original category and carrying amount under AASB 139 and the corresponding category, remeasurement and resulting carrying amount under AASB 9. There was no material re-categorisation of financial liabilities.

Classification of financial assets on the date of initial application of AASB 9

Australian Government		AASB 139 original classification	AASB 9 new classification	AASB 139 carrying amount at 30 June 2018 \$m	Remeasurement \$m	AASB 9 carrying amount at 1 July 2018 \$m	AASB 9
Financial assets class	Note						
Advances paid	5A	Loans and receivables	Amortised cost FVTPL	8,523 163	(32) (5)	8,491 158	
Goods and services and other receivables	5A	Loans and receivables	Amortised cost FVTPL	42,266 810	-	42,266 810	
Other accrued revenue	5A	Loans and receivables	Amortised cost FVTPL	6,700 1,615	(6)	6,694 -	
Held to maturity		Loans and receivables	Amortised cost FVTPL	129,703 3	-	129,703 7	
Investments	5B	Available for sale	Amortised cost FVTPL FVOCI	3,500 705 12,545 1,358	(5) -	3,500 700 12,545 1,358	
Equity investments	5C	FVTPL Available for sale	FVTPL FVOCI	50,697 4,770	- 47	50,697 4,817	

Classification of financial assets on the date of initial application of AASB 9 (continued)

General Government Sector		AASB 139 original classification	AASB 9 new classification	AASB 139 carrying amount at 30 June 2018 \$m	Remeasurement \$m	AASB 9 carrying amount at 1 July 2018 \$m	AASB 9
Financial assets class	Note						
Advances paid	5A	Loans and receivables	Amortised cost FVTPL	14,471 163	(30) (5)	14,441 158	
Goods and services and other receivables	5A	Loans and receivables	Amortised cost FVTPL	40,613 810	-	40,613 810	
Other accrued revenue	5A	Loans and receivables	Amortised cost FVTPL	6,092	(3)	6,089	
		Loans and receivables	Amortised cost FVTPL	1,424	-	1,424	
		Held to maturity	Amortised cost FVTPL	8,466 3	- 4	8,466 7	
Investments	5B	Available for sale	Amortised cost FVOCI	3,422 705 12,545	- (5) -	3,422 700 12,545	
Equity investments	5C	Available for sale	Amortised cost FVTPPL FVOCI	406 118,825 45,140	- -	406 118,825 45,140	
			FVTPPL FVOCI	50,697 59,644	- 47	50,697 59,691	

AASB 7 also requires disclosure of items of income, expenses, gains and losses by financial instrument category. This disclosure is to assist users to understand the financial performance results, given the different measurement basis applied to each category.

	General Government		Australian Government	
	2019	2018	2019	2018
	\$m	\$m	\$m	\$m
FINANCIAL ASSETS				
Amortised cost				
Interest income	1,616	588	827	2,153
Net foreign exchange gain/(loss)	15	26	3	16
Write-down and impairment	(304)	(311)	(336)	(311)
Net gain/(loss)	1,327	303	494	1,858
Fair value through other comprehensive income				
Interest income	11	28	11	49
Dividend income	1,871	1,011	(22)	97
Net foreign exchange gain/(loss)	622	273	622	273
Fair value movements in equity	1,253	(869)	1,084	515
Net gain/(loss)	3,757	443	1,695	934
Fair value through profit and loss				
Interest income	5,010	5,081	7,472	5,032
Net gain/(loss) on disposal	5,301	4,316	5,448	4,057
Dividend income	7,751	4,075	7,819	4,150
Net foreign exchange gain/(loss)	(840)	(1,269)	2,342	1,992
Write-down and impairment	(14)	(490)	(13)	(534)
Interest expenses	(191)	(186)	(189)	(186)
Other gains/(losses)	11,528	5,316	11,625	5,373
Net gain/(loss)	28,545	16,843	34,504	19,884
Held to maturity				
Interest income	-	93	-	98
Net gain/(loss)	-	93	-	98

	General Government		Australian Government	
	2019	2018	2019	2018
	\$m	\$m	\$m	\$m
FINANCIAL LIABILITIES				
Fair value through profit and loss				
Interest expenses	(20,787)	(19,945)	(20,359)	(19,843)
Net foreign exchange gain/(loss)	(3)	-	(3)	-
Other gains/(losses)	(43,734)	502	(43,733)	503
Net gain/(loss)	(64,524)	(19,443)	(64,095)	(19,340)
Other financial liabilities				
Interest expenses	(618)	(314)	(2,529)	(1,603)
Net foreign exchange gain/(loss)	(696)	(299)	(696)	(299)
Net gain/(loss)	(1,314)	(613)	(3,225)	(1,902)

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

The Australian Government is exposed to the following financial risks:

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

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

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

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

General Government Sector

The GGS holds financial instruments for:

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

Financing and liquidity management

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

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

Investment Funds

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

- **Future Fund** – a long-term investment fund that is designed to enhance the ability of the Australian Government to discharge unfunded superannuation liabilities expected after 2020;

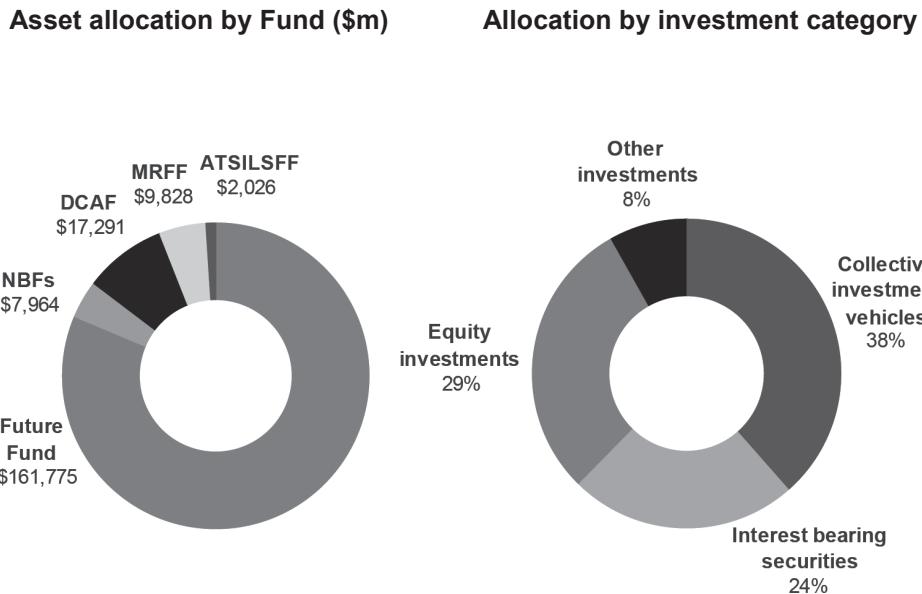
- **Nation Building Funds (NBF)** — designed to provide financing resources for critical areas of infrastructure. At 30 June 2019, the NBFs consisted of the Building Australia Fund and the Education Investment Fund. The Building Australia Fund ceased operation on 1 September 2019 and its balance was subsequently transferred to the Future Drought Fund. Legislation to close the Education Investment Fund passed both Houses of Parliament on 17 October 2019;
- **DisabilityCare Australia Fund (DCAF)** — an investment fund to enhance the Commonwealth's ability to reimburse the Commonwealth, states and territories for expenditure incurred in relation to the *National Disability Insurance Scheme Act 2013*;
- **Medical Research Future Fund (MRFF)** — a financial asset fund established to provide an endowment that will support medical research and innovation into the future; and
- **Aboriginal and Torres Strait Islander Land and Sea Future Fund (ATSILSFF)** — to support the Government making annual and discretionary payments to the Indigenous Land and Sea Corporation.

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

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

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

As at 30 June 2019, the Investment Funds held \$198,884 million in investment assets (2018: \$177,036 million). The allocation of assets by Investment Fund and percentage share by investment category is shown below as at 30 June 2019.



The Future Fund and the MRFF have long-term investment mandates for which the Future Fund Board constructs a highly diversified portfolio. The DCAF and the NBFs have shorter-term investment horizons. The assets of these funds are invested in a combination of short and medium-term debt instruments. The ATSILSFF was established in February 2019 and is in a transition phase as the Future Fund Board develops a long-term investment strategy. At 30 June 2019 the assets of the ATSILSFF were invested in a combination of cash and short-term deposit instruments.

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

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

- Equity investments in private funds and corporations (refer Note 5C), which include both domestic and international listed equities and listed managed investment schemes. Equity investments are held both long-term and short-term, and provide exposure to price and foreign exchange risk (for international equities).

- Collective Investment Vehicles (CIVs) (refer Note 5B) enable the Future Fund and MRFF to pool funds with multiple investors in investment holding entities in order to manage investment risks through portfolio diversification and provide investment exposure to larger assets. CIVs comprise 38 per cent of assets held by the Investment Funds at 30 June 2019 and include a range of underlying strategies including debt, private equity, hedge funds, property, infrastructure and timberland assets, both in Australia and overseas. The diversity of underlying investment strategies in CIVs give rise to credit risk, interest rate risk, price risk and foreign exchange risk, which are summarised in the CFS with further detail provided in the Future Fund Annual Report.
- Interest bearing securities (refer Note 5B) include international government securities, corporate securities, mortgage and asset-backed securities and interest bearing securities issued by domestic banks. Interest bearing securities are utilised by all of the Investment Funds for return generation and to manage risk, including in the short-term. The portfolio of interest bearing securities provide exposure to credit risk, interest rate risk and foreign exchange risk.
- Other investments (refer Note 5B) include derivatives and cash deposits held for investment purposes, and which are not available for Australian Government operating activities.

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

The 2018-19 Annual Report for the Future Fund Board of Guardians provides a detailed discussion of the underlying investment strategies, exposures as at the reporting date, and the 2018-19 investment performance for each of the Investment Funds.

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

Advances and investments for policy purposes

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

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

International commitments

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

Public Financial Corporations

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

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

Public Non-Financial Corporations

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

(b) Interest rate risk

Exposure

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

	2019			
	Fixed interest rate \$m	Floating interest rate \$m	Non- interest bearing \$m	Total \$m
Financial assets				
Advances paid and receivables (non-statutory)	9,719	54,064	8,230	72,013
<i>Investments, loans and placements:</i>				
Deposits	32,518	968	-	33,486
Government securities	130,776	-	-	130,776
Collective investment vehicles	-	-	76,567	76,567
Other interest bearing securities	40,405	8,905	407	49,717
Total financial assets	213,418	63,937	85,204	362,559
Financial liabilities				
Deposits held	34,036	20	-	34,056
Government securities	619,219	-	-	619,219
Loans	3,344	2,645	10,251	16,240
Total financial liabilities	656,599	2,665	10,251	669,515
Net exposure to interest rate risk	(443,182)	61,272	74,953	(306,956)

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

	2018			
	Fixed interest rate \$m	Floating interest rate \$m	Non- interest bearing \$m	Total \$m
Financial assets				
Advances paid and receivables (non-statutory)	7,143	44,014	8,922	60,079
<i>Investments, loans and placements:</i>				
Deposits	28,569	500	-	29,069
Government securities	142,959	39	-	142,998
Collective investment vehicles	1,413	-	67,307	68,720
Other interest bearing securities	35,918	9,546	393	45,857
Total financial assets	216,002	54,099	76,622	346,723
Financial liabilities				
Deposits held	33,841	-	-	33,841
Government securities	567,661	-	-	567,661
Loans	2,932	2,007	10,242	15,181
Total financial liabilities	604,434	2,007	10,242	616,683
Net exposure to interest rate risk	(388,432)	52,092	66,380	(269,960)

Sensitivity

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

Individually material exposures	Impact on operating result and net worth			
	2019		2018	
	+ 20 basis points \$m	- 20 basis points \$m	+ 20 basis points \$m	- 20 basis points \$m
Financial assets				
Investment funds	(371)	379	(432)	398
RBA Government securities	(83)	83	(85)	85
Financial liabilities				
Government securities	8,449	(8,647)	7,123	(7,278)

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

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

Management of interest rate risk

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

The Future Fund's investment managers utilise interest rate derivative contracts to manage the exposure to interest rates and to ensure it remains within approved limits. At 30 June 2019, the notional value of open futures contracts and swaps totalled \$18,799 million (2018: \$20,503 million).

The other investment funds had open positions in exchange traded interest rate futures contracts and interest rate swap agreements at the reporting date. At 30 June 2019, the notional value of open futures contracts and swaps totalled negative \$2,623 million (2018: negative \$2,403 million).

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

(c) Foreign exchange risk

Exposure

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

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

	Foreign currency	
	2019 \$m	2018 \$m
Financial assets		
Advances paid and receivables	2,227	2,258
<i>Investments, loans and placements:</i>		
Deposits	29,952	24,177
Government securities	40,004	46,520
International monetary fund quota	19,198	17,616
Collective investment vehicles	50,637	44,846
Other interest bearing securities	22,570	21,892
Equity investments	51,883	44,104
Total financial assets	216,471	201,413
Financial liabilities		
Loans	11,246	11,186
Other interest bearing liabilities	6,798	7,943
Total financial liabilities	18,044	19,129
Net foreign exchange holdings	198,427	182,284

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

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

Sensitivity

Given the Australian Government's net holdings of foreign currency assets, an appreciation in the Australian dollar exchange rate results in valuation losses, while a depreciation leads to valuation gains. The following table provides a sensitivity analysis for the individual foreign exchange rate exposures where the variability is material to the Australian Government. The analysis is based on the foreign exchange standardised rate of +/- 8.7 per cent (2018: 9.2 per cent) applied to the value of the Australian dollar exchange rate as at 30 June 2019.

Individually material exposures	Impact on operating result and net worth			
	2019		2018	
	+8.7 per cent \$m	-8.7 per cent \$m	+9.2 per cent \$m	-9.2 per cent \$m
Foreign financial assets				
Investment funds	(8,365)	8,503	(7,241)	7,400
RBA Government securities	(4,400)	5,377	(4,504)	5,505
IMF and IFI Investments	(1,421)	1,691	(1,424)	1,712
Foreign financial liabilities				
IMF SDR and loans liabilities	494	(588)	600	(499)

Management of foreign exchange risk

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

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

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

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

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

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

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

	2019 \$m	2018 \$m
Forward exchange contracts and foreign currency swaps		
Sell foreign currency	(130,921)	(118,045)
Purchase foreign currency	59,824	51,806
Net forward exchange contracts and foreign currency swaps	(71,097)	(66,239)

(d) Other price risk

Exposure

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

	2019 \$m	2018 \$m
Equity price risk exposure		
Domestic equities and managed investment schemes	12,818	10,482
International equities and managed investment schemes	45,799	40,143
Total equity price risk exposure	58,617	50,625

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

Sensitivity

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

Individually material exposures	Impact on operating result and net worth			
	2019		2018	
	+ 20 & 15 per cent	- 20 & 15 per cent	+ 20 & 15 per cent	- 20 & 15 per cent
	\$m	\$m	\$m	\$m
Domestic equities	3,705	(3,705)	3,638	(3,638)
International equities	15,444	(15,173)	12,874	(11,959)
Total	19,149	(18,878)	16,512	(15,597)

Management of other price risk

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

	2019		2018	
	Notional value \$m	Fair value \$m	Notional value \$m	Fair value \$m
Buy domestic equity futures contract	116	1	83	2
Sell domestic equity futures contract	(138)	(1)	(9)	-
Buy international equity futures contract	3,775	78	663	(19)
Sell international equity futures contract	(115)	(1)	(597)	11
International equity index put options	(3,063)	41	(948)	6
International equity index call options	2,712	85	11,584	422
International exchange traded warrants	10	6	8	3
Total	3,297	209	10,784	425

Note 10C: Defined benefit superannuation plans

Accounting policy

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

Superannuation liabilities are calculated annually as the present value of future benefit obligations less the fair value of scheme assets. The rate used to discount future benefits of material schemes is determined by reference to the long-term government bond rate. The long-term government bond rate decreased from between 2.7 and 3.1 per cent at 30 June 2018 to between 1.3 and 1.9 per cent at 30 June 2019. This drove the increase in the superannuation liability in comparison to the prior year.

Overview of schemes

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

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

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

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

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

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

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

Composition

As at 30 June 2019, the composition of the Australian Government's net liability for the defined benefit schemes (as reported in Note 6F) was as follows:

Scheme	General Government		Australian Government	
	2019 \$m	2018 \$m	2019 \$m	2018 \$m
Commonwealth Superannuation Scheme (CSS)	95,503	82,894	95,503	82,894
Public Sector Superannuation Scheme (PSS)	134,288	97,480	134,288	97,480
Defence Force Retirement and Death Benefits Scheme (DFRDB)	55,537	46,714	55,537	46,714
Military Superannuation Benefits Scheme (MSBS)	125,745	83,344	125,745	83,344
Other schemes	4,083	3,004	4,829	3,352
Other superannuation liabilities	130	116	144	186
Total superannuation provision	415,286	313,552	416,046	313,970

The defined benefit plan asset of \$566 million reported in Note 5B (2018: \$827 million) relates to certain schemes sponsored by public corporations (included in 'other').

Regulatory framework

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

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

Funding arrangements

The funding arrangements for the individually disclosed schemes are as follows:

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

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

Entitlements

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

Scheme	Benefits paid
CSS	<p>Employer financed indexed pension defined by a set formula based on the member's age at retirement, years of contributory service and final superannuation salary. Indexation occurs twice yearly (January and July) in line with changes in the CPI.</p> <p>Member's basic contributions, employer productivity contributions and interest can be taken as a lump sum or an additional non-indexed lifetime pension. This benefit is determined by the value of contributions and investment returns.</p> <p>Members who resign before age 55 can claim a preserved resignation benefit on or after reaching that age. In this case, the indexed pension is calculated by applying age-based factors to the amount of two and a half times the member's accumulated basic member contributions and interest.</p>

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

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

Governance

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

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

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

Risks

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

Assumptions

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

Membership data for the CSS, PSS, DFRDB and MSBS as at 30 June 2018 was projected forward to 30 June 2019 applying assumptions in accordance with the LTCRs and adjusted to recognise the difference between actual benefit payments and assumed decrements. Members’ account balances were increased to be consistent with the estimated level of earning rates prevailing at 30 June 2019.

For the fair value of plan assets, assumptions have been made as to the expected rate of return. For certain schemes, the fair value of scheme assets as at 30 June 2019 was estimated using the pre-30 June 2019 fair value of scheme assets and adjusted for subsequent cash flows. The following tables explain the amounts reported in the financial statements.

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

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

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

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

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

Sensitivity analysis for significant actuarial assumptions

The impact of a change in the defined benefit obligation reported as at 30 June 2019 under several scenarios is presented below. The balance has been recalculated by changing the assumptions as outlined below, whilst retaining all other assumptions.

	Change in assumption	Impact on defined benefit obligation	
		Increase \$m	Decrease \$m
CSS			
Discount rate	0.5%	(6,385)	7,127
Salary growth rate	0.5%	81	(109)
Rate of CPI increase	0.5%	5,728	(5,216)
PSS			
Discount rate	0.5%	(15,283)	17,795
Salary growth rate	0.5%	3,196	(3,000)
Rate of CPI increase	0.5%	12,242	(10,925)
DFRDB and MSBS			
Discount rate	0.5%	(22,761)	27,446
Salary growth rate	0.5%	7,907	(7,521)
Rate of CPI increase	0.5%	21,907	(18,521)
Other			
Discount rate	0.5%	(490)	557
Salary growth rate	0.5%	372	(324)

Employer contributions

The following table shows the expected contributions for 2019-20 by scheme.

Scheme	2020 \$m
Commonwealth Superannuation Scheme	9
Public Sector Superannuation Scheme	151
Defence Force Retirement and Death Benefits Scheme	1,672
Military Superannuation Benefits Scheme	1,035
Other schemes	234

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	14.1 years
Commonwealth Superannuation Scheme 1922	8.1 years
Public Sector Superannuation Scheme	22.4 years
Defence Force Retirement and Death Benefits Scheme	18.8 years
Defence Forces Retirement Benefits Scheme	10.6 years
Military Superannuation Benefits Scheme	31.5 years
Other schemes	13.2 years

Note 11: Related parties

Note 11A: Ministerial remuneration

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

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

Remuneration	2019 \$m	2018 \$m
Short-term employee benefits(a)	10.6	9.0
Post-employment benefits(b)	62.8	1.7
Total key management personnel remuneration	73.4	10.7

- (a) Short-term benefits comprise total salary (including the additional ministerial component), motor vehicle and other fringe benefit costs including related fringe benefits tax.
- (b) Post-employment benefits comprise superannuation contributions and post-retirement travel. The amount reported in 2018-19 includes an estimate of the long-term benefits (including staff, office and vehicle costs) that will be made available to the Prime Minister upon retirement from his ministerial office. The estimate was actuarially determined based on a series of assumptions and is recognised when a new Prime Minister takes office. The resources provided to former Prime Ministers are set out in the *Parliamentary Business Resources (former Prime Ministers) Determination 2017*.

The number of Cabinet Minister positions during the financial year was 23 (2018: 24).

Note 11B: Related party disclosures

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

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

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

Notes to the financial statements

Transactions with superannuation funds represent contributions, and payments of benefits to members or their beneficiaries. These are made in accordance with the rules of the relevant fund. Contributions to the funds for Cabinet Ministers totalled \$1.7 million (2018: \$1.7 million). Further information about defined benefit funds are included at Note 10C.

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

Note 12: Events occurring after balance date

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

No significant events have occurred after reporting date that require the CFS to be adjusted as at 30 June 2019, nor have there been any significant non-adjusting events that have occurred after reporting date.

Note 13: Reconciliations and explanations

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

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

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

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

- **Reconciliation to ABS GFS measures** (refer Note 13A) which compares the key financial measures contained in this financial report to the corresponding measures under the ABS GFS Manual and highlights the remaining differences between the two reporting frameworks;
- **Reconciliation to original budget** (refer Note 13B), also required by AASB 1055 *Budgetary Reporting*, which compares the reported results to the original budget for 2018-19 as outlined in May 2018 with explanations for key movements; and
- **Glossary of key fiscal aggregates** (refer Note 13C) which explains the key technical terms reported in the CFS and which are not common to financial reports prepared by other entities.

Note 13A: Reconciliations to ABS GFS measures

Under AASB 1049, the financial statements are reconciled to the new ABS GFS Manual.

The material differences in key fiscal aggregates between the CFS and the corresponding ABS GFS measures are shown in the following table for 2018-19.

The amounts reported may differ to the aggregates subsequently reported by the ABS in the 2018-19 GFS publication because of changes in methodology, differences in interpretation and/or updated information available subsequent to the release of the financial statements.

The 2019 key fiscal aggregates on the face of the financial statements reconcile to the corresponding ABS GFS measures as follows:

	2019				
	GGS \$m	PNFC \$m	PFC \$m	Eliminations \$m	Australian Government \$m
Reconciliation of net operating balance					
Reported net operating balance	8,843	(4,912)	1,346	(2,019)	3,258
Convergence differences:					
Unwinding of concessional interest costs(a)	(635)	(2)	-	-	(637)
Concessional interest costs(a)	322	-	42	-	364
Seigniorage(b)	(62)	-	-	-	(62)
Deferred tax assets and liabilities(c)	-	(88)	-	88	-
Dividends to GGS from other sectors(d)	(1,016)	(396)	(1,596)	3,008	-
Renewable Energy Certificates(e)	(1,348)	-	-	-	(1,348)
Total convergence differences	(2,739)	(486)	(1,554)	3,096	(1,683)
GFS net operating balance	6,104	(5,398)	(208)	1,077	1,575
Reconciliation of change in net worth					
Reported change in net worth	(125,127)	(3,773)	5,114	(3,105)	(126,891)
Convergence differences:					
Relating to net operating balance	(2,739)	(486)	(1,554)	3,096	(1,683)
Relating to other economic flows	1,999	3,179	(3,463)	998	2,713
Relating to transactions with owners	-	(1,085)	96	989	-
Total convergence differences	(740)	1,608	(4,921)	5,083	1,030
GFS total change in net worth	(125,867)	(2,165)	193	1,978	(125,861)
Reconciliation of net lending/(borrowing)					
Reported net lending/(borrowing)	2,716	(10,713)	1,537	(2,020)	(8,480)
Convergence differences:					
Relating to net operating balance	(2,739)	(486)	(1,554)	3,096	(1,683)
Total convergence differences	(2,739)	(486)	(1,554)	3,096	(1,683)
GFS net lending/(borrowing)	(23)	(11,199)	(17)	1,076	(10,163)
Reconciliation of net worth					
Reported net worth	(543,164)	26,372	29,726	(57,567)	(544,633)
Convergence differences:					
Investment in other sector entities(f)	791	-	-	(791)	-
Deferred tax assets(c)	-	(870)	(6)	876	-
Seigniorage(b)	(4,264)	-	-	-	(4,264)
Deferred tax liability(c)	-	556	-	(556)	-
Dividends(d)	(1,016)	-	1,016	-	-
Shares and other contributed capital(g)	-	(26,058)	(30,736)	58,038	1,244
Renewable Energy Certificates(e)	(4,778)	-	-	-	(4,778)
Total convergence differences	(9,267)	(26,372)	(29,726)	57,567	(7,798)
GFS net worth	(552,431)	-	-	-	(552,431)

Table note explanations follow the comparative table.

Notes to the financial statements

The following table provides the comparative 2018 reconciliation.

	2018				
	GGS \$m	PNFC \$m	PFC \$m	Eliminations \$m	Australian Government \$m
Reconciliation of net operating balance					
Reported net operating balance	(4,159)	(4,372)	1,043	(894)	(8,382)
Convergence differences:					
Unwinding of concessional interest costs(a)	(60)	-	-	-	(60)
Concessional interest costs(a)	226	-	-	-	226
Seigniorage(b)	(89)	-	-	-	(89)
Deferred tax assets and liabilities(c)	-	3	-	(3)	-
Dividends to GGS from other sectors(d)	617	(190)	(732)	305	-
Renewable Energy Certificates(e)	<u>(1,234)</u>	-	-	-	<u>(1,234)</u>
Total convergence differences	(540)	(187)	(732)	302	(1,157)
GFS net operating balance	(4,699)	(4,559)	311	(592)	(9,539)
Reconciliation of change in net worth					
Reported change in net worth	(26,780)	3,037	4,271	(6,642)	(26,114)
Convergence differences:					
Relating to net operating balance	(540)	(187)	(732)	302	(1,157)
Relating to other economic flows	(1,171)	(5,684)	(3,548)	9,203	(1,200)
Relating to transactions with owners	-	(2,837)	(10)	2,847	-
Total convergence differences	(1,711)	(8,708)	(4,290)	12,352	(2,357)
GFS total change in net worth	(28,491)	(5,671)	(19)	5,710	(28,471)
Reconciliation of net lending/(borrowing)					
Reported net lending/(borrowing)	(5,445)	(9,809)	1,047	(896)	(15,103)
Convergence differences:					
Relating to net operating balance	(540)	(187)	(732)	302	(1,157)
Total convergence differences	(540)	(187)	(732)	302	(1,157)
GFS net lending/(borrowing)	(5,985)	(9,996)	315	(594)	(16,260)
Reconciliation of net worth					
Reported net worth	(418,039)	29,461	26,305	(55,465)	(417,738)
Convergence differences:					
Investment in other sector entities(f)	166	-	-	(166)	-
Deferred tax assets(c)	-	(899)	5	894	-
Seigniorage(b)	(4,202)	-	-	-	(4,202)
Deferred tax liability(c)	-	673	-	(673)	-
Dividends(d)	617	-	(617)	-	-
Shares and other contributed capital(g)	-	(29,235)	(25,693)	55,410	482
Renewable Energy Certificates(e)	(5,108)	-	-	-	(5,108)
Total convergence differences	(8,527)	(29,461)	(26,305)	55,465	(8,828)
GFS net worth	(426,566)	-	-	-	(426,566)

The convergence differences consist of:

- (a) *Concessional interest costs* - The ABS GFS Manual recognises the concessional discount as an 'other economic flow'. The CFS treats concessional elements as an expense.
- (b) *Seigniorage* - The financial statements treat the profit between the cost and sale of circulating coin (seigniorage) as revenue whereas the ABS GFS Manual treats circulating coin as a liability and the cost to produce the coins as an expense.
- (c) *Deferred tax assets and liabilities* - Deferred tax assets and liabilities are reported in the financial statements. The ABS GFS Manual does not recognise these items.
- (d) *Dividends to GGS from other sectors* - The financial statements treat dividends to the GGS as a distribution to owners whereas the ABS GFS Manual treats dividends to owners as an expense. The financial statements recognise the RBA dividends in the year profit was earned whereas the ABS GFS Manual recognises dividends when the Treasurer makes a determination.
- (e) *Renewable Energy Certificates (RECs)* - The financial statements recognise revenue from the surrender of RECs and expenses associated with the refund of shortfall charges. Under the ABS GFS Manual, the issuance and registration of RECs is considered to be government financial transactions resulting in the recognition of assets, liabilities, revenue and expenses.
- (f) *Investment in other sector entities* - The financial statements apply AASB 13 to the valuation of the GGS's investment in public corporations whereas the ABS GFS Manual values public corporations at their net assets unless the shares in a public corporation are publicly traded. A convergence difference arises where the application of AASB 13 results in a valuation other than net assets.
- (g) *Shares and other contributed capital* - The financial statements treat shares and other contributed capital in public corporations as part of net worth. The ABS GFS Manual deducts contributed capital in the calculation of net worth (with net worth calculated as assets less liabilities less shares and other contributed equity).

The ABS GFS Manual measures inventory at market value (rather than the lower of cost and net realisable value). It also does not recognise the provision for decommissioning/restoration costs. The above reconciliation has not been adjusted for these items on the basis of materiality and information availability. In net lending/(borrowing), the ABS GFS Manual recognises the auction and sale of spectrum licences at the time of allocation while these financial statements recognise the disposal of spectrum licences at the point of issuance. This can result in a temporary divergence in net lending/borrowing where the allocation and issuance occur in different years. While no divergence has been reported in the 2018-19 key fiscal aggregate and 2017-18 comparative, this may change as the ABS GFS statements are updated. In the cash flow statement, sales proceeds are recognised when received at sale or auction under both frameworks.

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

Note 13B: Reconciliation to original budget

The following tables provide a comparison of the original 2018-19 Budget to the final actual results for the GGS, with explanations provided for major variances.

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

General government sector operating statement 2018-19

	2019 Actual \$m	Original budget(a) \$m	Budget variance \$m	Revised budget(b) \$m
Revenue from transactions				
Taxation revenue	456,203	452,001	4,202	459,085
Sales of goods and services	12,488	14,490	(2,002)	13,455
Interest income	4,455	4,442	13	4,837
Dividend income	9,622	4,126	5,496	7,718
Other	10,722	11,082	(360)	10,701
Total revenue	493,490	486,141	7,349	495,796
Expenses from transactions				
<i>Gross operating expenses</i>				
Wages and salaries	19,775	20,411	(636)	20,693
Superannuation	9,136	6,022	3,114	9,043
Depreciation and amortisation	9,013	9,023	(10)	8,742
Supply of goods and services	115,308	119,635	(4,327)	117,710
Other operating expenses	7,893	6,048	1,845	6,693
<i>Total gross operating expenses</i>	<i>161,125</i>	<i>161,139</i>	<i>(14)</i>	<i>162,881</i>
Superannuation interest expense	9,444	10,648	(1,204)	9,447
Interest expense	18,073	19,045	(972)	18,375
<i>Current transfers</i>				
Current grants	147,982	149,037	(1,055)	148,851
Subsidy expenses	11,501	12,055	(554)	11,367
Personal benefits	125,324	126,429	(1,105)	125,230
<i>Total current transfers</i>	<i>284,807</i>	<i>287,521</i>	<i>(2,714)</i>	<i>285,448</i>
<i>Capital transfers</i>				
Mutually agreed write-downs	1,243	1,494	(251)	1,317
Other capital grants	9,955	8,738	1,217	9,875
<i>Total capital transfers</i>	<i>11,198</i>	<i>10,232</i>	<i>966</i>	<i>11,192</i>
Total expenses	484,647	488,584	(3,938)	487,343
Net operating balance	8,843	(2,443)	11,287	8,452
Other economic flows - included in operating result				
Net write-down of assets	(6,415)	(8,667)	2,252	(7,859)
Net gain/(loss) from the sale of assets	5,291	105	5,186	(77)
Net foreign exchange gains/(losses)	(902)	130	(1,032)	(208)
Net interest on derivatives gains/(losses)	(622)	-	(622)	(356)
Net fair value gains/(losses)	(32,206)	5,544	(37,750)	(18,315)
Net other gains/(losses)	(10,142)	(660)	(9,482)	(454)
Operating result	(36,153)	(5,990)	(30,161)	(18,816)
Other economic flows - through equity				
<i>Will not be reclassified to operating result</i>				
Revaluation of non-financial assets	1,899	(29)	1,928	266
Actuarial revaluations of superannuation	(92,165)	81	(92,246)	1,441
Other economic revaluations	39	(348)	387	(241)
<i>May be reclassified to operating result</i>				
Revaluation of equity investments	1,253	(6,091)	7,344	(3,499)
Comprehensive result	(125,127)	(12,377)	(112,748)	(20,849)
Net operating balance	8,843	(2,443)	11,287	8,452
less Net acquisition of non-financial assets				
Purchases of non-financial assets	14,688	14,222	466	15,306
less Sales of non-financial assets	188	287	(99)	194
less Depreciation and amortisation	9,013	9,023	(10)	8,742
plus Change in inventories	637	75	562	118
plus Other movements in non-financial assets	3	1	2	2
Total net acquisition of non-financial assets	6,127	4,989	1,139	6,490
Fiscal balance (Net lending/borrowing)	2,716	(7,431)	10,148	1,962

- (a) Original budget for 2018-19 in the 2018-19 Budget papers released in May 2018, presented on the same basis as the actual information to facilitate comparison.
- (b) Revised budget for 2018-19 in the 2019-20 Budget papers released in April 2019, presented on the same basis as the actual information to facilitate comparison.

Revenue

Line item	Variance	Explanation
Taxation	\$4.2b	Total taxation revenue was \$4.2 billion higher than the original budget, primarily driven by: <ul style="list-style-type: none"> higher individuals and other withholding taxes (\$5.5 billion above original budget) consistent with higher-than-expected employment growth and also reflecting higher-than-expected capital gains and dividend income; higher company tax (\$3.5 billion above original budget) consistent with higher-than-expected growth in corporate profits, mainly mining profits; and lower goods and services tax (\$3.9 billion lower than original budget) reflecting lower-than-expected growth in household consumption and dwelling investment.
Sales of goods and services	(\$2.0b)	Sales of goods and services was \$2.0 billion lower than the original budget, primarily due to lower-than-estimated contributions to the National Disability Insurance Scheme (NDIS) from states and territories, as a result of the slower-than-expected transition of participants into the NDIS (\$1.5 billion).
Dividend income	\$5.5b	Dividend revenue was \$5.5 billion higher than the original budget, primarily driven by higher-than-expected dividend revenue from investments held by the Future Fund and higher revenue from the Reserve Bank of Australia.

Expenses

Line item	Variance	Explanation
Superannuation	\$3.1b	Superannuation expenses were \$3.1 billion higher than the original budget, primarily due to the difference in discount rates used to calculate the superannuation liability. This increase in expenses was offset by lower-than-expected superannuation interest, which was \$1.2 billion lower than original budget. At the 2018-19 Budget, actuaries determined the long-term discount rate to be 5.0 per cent per annum. This rate reflects the average annual rate estimated to apply over the remainder of the term to maturity of the liability and the actuaries' view that short-term deviations are expected to be smoothed out in the longer term. For the CFS, the Australian Accounting Standards require the use of the long-term government bond rate as at 30 June 2019 that best matches each individual scheme's liability duration. The rates used were between 1.4 and 1.9 per cent per annum. Lower discount rates result in a higher superannuation liability, higher superannuation expenses and lower nominal superannuation interest expense.
Supply of goods and services	(\$4.3b)	Supply of goods and services expenses were \$4.3 billion lower than the original budget. This primarily reflects lower-than-estimated participant plan expenses under the NDIS as a result of slower than expected transition of participants and lower utilisation of participants' individual support packages.
Personal benefits	(\$1.1b)	Personal benefit expenses were \$1.1 billion lower than the original budget as a result of lower-than-expected claims on income support programs.

Other economic flows

Line item	Variance	Explanation
Net gains from sale of assets	\$5.2b	Net gains from sale of assets were \$5.2 billion higher than the original budget, primarily attributable to Future Fund gains on the sale of investments.
Net fair value losses	(\$37.8b)	Net fair value losses were \$37.8 billion higher than the original budget, which reflects the increased market value of Australian Government Securities (AGS) resulting from lower market yields as at 30 June 2019, partially offset by fair value gains relating to higher education loans.
Net other losses	(\$9.5b)	Net other losses were \$9.5 billion higher than original budget, mainly relating to the actuarial revaluation of military compensation provisions.
Actuarial revaluations of superannuation	(\$92.2b)	The movement of \$92.2 billion in the value of the superannuation liability compared to the original budget was a result of actuarial revaluations mainly reflecting the decline in the discount rate used to calculate the liability in the CFS (from a range between 2.7 and 3.1 per cent per annum as at 30 June 2018 to a range between 1.4 and 1.9 per cent per annum as at 30 June 2019). For Budget purposes, a long-term discount rate of 5.0 per cent per annum is used.
Revaluation of equity investments	\$7.3b	The movement of \$7.3 billion in the revaluation of equity investments compared to original budget, relates to the change in the valuation of public corporations.

General government sector balance sheet as at 30 June 2019

	2019 Actual \$m	Original budget(a) \$m	Budget variance \$m	Revised budget(b) \$m
Assets				
<i>Financial assets</i>				
Cash and deposits	8,606	5,875	2,731	7,563
Advances paid	75,394	73,041	2,353	71,008
Other receivables and accrued revenue	52,770	52,356	414	51,686
Investments, loans and placements	187,947	183,513	4,434	175,216
Equity investments	124,444	104,235	20,209	122,311
<i>Total financial assets</i>	449,161	419,021	30,141	427,785
<i>Non-financial assets</i>				
Land	11,834	10,650	1,184	11,586
Buildings	27,276	26,622	654	27,072
Other plant, equipment and infrastructure (including specialist military equipment)	81,984	78,345	3,639	81,742
Intangibles	8,770	9,819	(1,049)	9,039
Investment property	160	159	1	193
Inventories	8,946	7,874	1,072	8,397
Heritage and cultural assets	11,695	11,636	59	11,604
Other non-financial assets	4,609	3,829	780	4,251
<i>Total non-financial assets</i>	155,274	148,935	6,340	153,883
<i>Total assets</i>	604,435	567,956	36,481	581,668
Liabilities				
<i>Interest bearing liabilities</i>				
Deposits held	388	218	170	381
Government securities	626,368	594,437	31,931	608,637
Loans	10,380	10,343	37	10,768
Other borrowings	1,531	1,526	5	1,491
Other interest bearing liabilities	6,763	5,755	1,008	5,983
<i>Total interest bearing liabilities</i>	645,430	612,280	33,151	627,260
<i>Provisions and payables</i>				
Superannuation liability	415,286	223,603	191,683	223,720
Other employee liabilities	26,090	18,863	7,227	20,166
Supplier payables	8,271	8,203	68	6,027
Personal benefits payable	2,994	3,038	(44)	3,389
Subsidies payable	630	1,114	(484)	519
Grants payable	2,742	3,072	(330)	3,539
Other payables	3,293	2,236	1,057	2,316
Other provisions	42,863	33,157	9,706	35,622
<i>Total provisions and payables</i>	502,169	293,285	208,883	295,297
<i>Total liabilities</i>	1,147,599	905,565	242,034	922,557
Net worth	(543,164)	(337,609)	(205,553)	(340,889)

- (a) Original budget for 2018-19 in the 2018-19 Budget papers released in May 2018, presented on the same basis as the actual information to facilitate comparison.
- (b) Revised budget for 2018-19 in the 2019-20 Budget papers released in April 2019, presented on the same basis as the actual information to facilitate comparison.

Assets

Line item	Variance	Explanation
Cash and deposits	\$2.7b	Cash and deposits were \$2.7 billion higher than the original budget. This primarily reflects the higher-than-estimated cash holdings of National Disability Insurance Agency, driven by the slower than expected transition of participants to the NDIS and lower utilisation of participants' individual support packages.
Advances paid	\$2.4b	Advances paid were \$2.4 billion higher than the original budget. This was driven by: <ul style="list-style-type: none"> • changes in actuarial assumptions and the government bond rate for higher education loans (\$3.9 billion); partially offset by • nbn Co drawing down less than anticipated from a Commonwealth loan facility (\$1.6 billion).
Investments, loans and placements	\$4.4b	Investments, loans and placements were \$4.4 billion higher than the original budget, in part due to greater than anticipated returns from the Australian Government Investment Funds (including the Building Australia Fund and the Education Investment Fund). The increase was partially offset by a reduction in term deposit investments of the Australian Office of Financial Management (AOFM).
Equity investments	\$20.2b	Equity investments were \$20.2 billion higher than the original budget. This was driven by: <ul style="list-style-type: none"> • higher value of investments managed by the Future Fund (\$9.5 billion); • the change in the net asset position of the RBA (\$4.6 billion); and • the change in the fair value of Snowy Hydro Limited (\$3.6 billion).
Non-financial assets	\$6.3b	Non-financial assets were \$6.3 billion higher than the original budget. This is largely driven by higher infrastructure, plant and equipment, including specialist military equipment, as a result of asset revaluations (\$5.9 billion).

Liabilities

Line item	Variance	Explanation
Government securities	\$31.9b	The value of AGS managed by the AOFM was \$31.9 billion higher than the original budget, primarily driven by the change in market valuation resulting from lower market yields as at 30 June 2019. The increase was partially offset by the lower face value of debt outstanding.
Superannuation liability	\$191.7b	The superannuation liability was \$191.7 billion higher than the original budget, primarily due to the lower discount rate used to calculate the liability in the CFS (refer to the actuarial revaluations of superannuation explanation).
Other employee liabilities	\$7.2b	Other employee liabilities were \$7.2 billion higher than original budget, primarily related to the actuarial revaluation of the military compensation provisions.

General government sector cash flow statement 2018-19

	2019 Actual \$m	Original budget(a) \$m	Budget variance \$m	Revised budget(b) \$m
OPERATING ACTIVITIES				
Cash received				
Taxes received	448,578	440,480	8,098	448,821
Receipts from sales of goods and services	12,863	14,551	(1,688)	13,467
Interest receipts	3,768	4,257	(489)	4,412
Dividend receipts	8,978	3,970	5,008	7,175
Other receipts	10,501	9,767	734	10,643
Total cash received	484,688	473,026	11,663	484,518
Cash used				
Payments for employees	(29,120)	(29,718)	598	(29,603)
Payments for goods and services	(111,826)	(117,209)	5,383	(116,831)
Grants and subsidies paid	(170,467)	(169,900)	(567)	(170,609)
Interest paid	(18,951)	(18,749)	(202)	(18,491)
Personal benefits paid	(126,362)	(129,372)	3,010	(125,961)
Other payments	(6,710)	(5,717)	(993)	(6,358)
Total cash used	(463,436)	(470,664)	7,229	(467,853)
Net cash from/(used by) operating activities	21,252	2,362	18,892	16,665
INVESTING ACTIVITIES				
Investments in non-financial assets				
Sales of non-financial assets	597	720	(123)	647
Purchases of non-financial assets	(14,656)	(13,984)	(672)	(14,881)
Net cash from non-financial assets	(14,059)	(13,265)	(795)	(14,234)
Net cash flows from investments in financial assets for policy purposes	(14,388)	(16,659)	2,271	(15,149)
Net cash flows from investments in financial assets for liquidity purposes	1,491	1,359	132	1,979
Net cash from/(used by) investing activities	(26,956)	(28,565)	1,608	(27,404)
FINANCING ACTIVITIES				
Cash flows from financing activities				
Net cash received				
Borrowings	10,415	29,358	(18,943)	14,401
Other financing	2,394	-	2,394	1,215
Net cash received	12,809	29,358	(16,549)	15,616
Net cash used				
Distributions paid	(6)	(7)	1	(1)
Other financing	(5,356)	(2,636)	(2,720)	(4,092)
Net cash used	(5,362)	(2,643)	(2,719)	(4,093)
Net cash flows from financing activities	7,447	26,715	(19,268)	11,523
Net (decrease)/increase in cash held	1,743	512	1,232	783
Cash at beginning of year	6,863	5,363	1,500	6,780
Cash at end of year	8,606	5,875	2,732	7,563
Key fiscal aggregate				
Net cash flows from operating activities	21,252	2,362	18,890	16,665
Net cash flows from investments in non-financial assets	(14,059)	(13,265)	(794)	(14,234)
Cash surplus/(deficit)	7,193	(10,903)	18,096	2,430

- (a) Original budget for 2018-19 in the 2018-19 Budget papers released in May 2018, presented on the same basis as the actual information to facilitate comparison.
- (b) Revised budget for 2018-19 in the 2019-20 Budget papers released in April 2019, presented on the same basis as the actual information to facilitate comparison.

Note 13C: Glossary of key fiscal aggregates

Balance sheet

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

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

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

Fiscal balance

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

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

Mutually agreed bad debts

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

Net actuarial gains

Includes actuarial gains and losses on defined benefits superannuation plans.

Net lending/borrowing

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

Net other economic flows

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

Net operating balance

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

Net worth

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

Operating result

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

Operating statement

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

Transactions

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

Unilaterally determined bad debts

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

Note 14: Audit expenses

With the exception of a small number of entities, audit services within the reporting entity are provided by the Auditor-General. The cost of these services, which include performance and financial statement audits, totalled \$81.0 million (2018: \$75.4 million). The audit of the CFS cost \$0.6 million (2018: \$0.7 million).

Note 15: List of Australian Government reporting entities

The following is a list of Australian Government reporting entities which have been consolidated for the purposes of the financial report. Unless otherwise noted, all such entities are wholly owned. The list is based on the Australian Government Administrative Arrangement Orders in place at 30 June 2019.

Agriculture Portfolio

General Government:

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

Attorney-General's Portfolio

General Government:

Administrative Appeals Tribunal	Federal Court of Australia
Asbestos Safety and Eradication Agency	High Court of Australia
Attorney-General's Department	National Archives of Australia
Australian Building and Construction Commission	Office of the Australian Information Commissioner
Australian Commission for Law Enforcement Integrity	Office of the Commonwealth Ombudsman
Australian Financial Security Authority	Office of the Director of Public Prosecutions
Australian Human Rights Commission	Office of the Inspector General of Intelligence and Security
Australian Law Reform Commission	Office of Parliamentary Counsel
Comcare	Safe Work Australia
Fair Work Commission	Seafarers Safety, Rehabilitation and Compensation Authority (Seacare Authority)
Fair Work Ombudsman and Registered Organisations Commission Entity	

Public Financial Corporation:

Coal Mining Industry (Long Service Leave Funding) Corporation

Communications and the Arts Portfolio

General Government:

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

Public Non-Financial Corporations:

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

General Government:

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

Education Portfolio

General Government:

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

Employment, Skills, Small and Family Business Portfolio

General Government:

Australian Skills Quality Authority (National Vocational Education and Training Regulator)	Department of Employment, Skills, Small and Family Business
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Environment and Energy Portfolio

General Government:

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

Public Non-Financial Corporation:

Snowy Hydro Limited

Finance Portfolio

General Government:

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

Public Non-Financial Corporations:

ASC Pty Ltd

Australian Naval Infrastructure Pty Ltd

Foreign Affairs and Trade Portfolio

General Government:

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

Public Financial Corporation:

Export Finance and Insurance Corporation

Health Portfolio

General Government:

Aged Care Quality and Safety Commission
Australian Commission on Safety and Quality in Health Care
Australian Digital Health Agency
Australian Institute of Health and Welfare
Australian National Preventive Health Agency
Australian Radiation Protection and Nuclear Safety Agency
Australian Sports Anti-Doping Authority
Australian Sports Commission (Australian Institute of Sport)

Australian Sports Foundation Ltd (company limited by guarantee)
Cancer Australia
Department of Health
Food Standards Australia New Zealand
Independent Hospital Pricing Authority
National Blood Authority
National Health and Medical Research Council
National Health Funding Body
National Mental Health Commission
Organ and Tissue Authority
Professional Services Review Scheme

Home Affairs Portfolio

General Government:

Australian Criminal Intelligence Commission
Australian Federal Police
Australian Institute of Criminology

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

Industry, Innovation and Science Portfolio

General Government:

Australian Institute of Marine Science
Australian Nuclear Science and Technology Organisation
Commonwealth Scientific and Industrial Research Organisation
Department of Industry, Innovation and Science

Geoscience Australia
IP Australia
National Offshore Petroleum Safety and Environmental Management Authority
Northern Australia Infrastructure Facility

Public Non-Financial Corporation:

ANSTO Nuclear Medicine Pty Ltd

Public Financial Corporations:

CSIRO FollowOn Services Pty Ltd

CSIRO General Partner Pty Ltd
CSIRO General Partner 2 Pty Ltd

Infrastructure, Transport, Cities and Regional Development Portfolio

General Government:

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

Infrastructure Australia
National Capital Authority
National Transport Commission
Norfolk Island Health and Residential Aged Care Service
North Queensland Water Infrastructure Authority

Public Non-Financial Corporations:

Airservices Australia
Australian Rail Track Corporation Limited

Moorebank Intermodal Company Limited
WSA Co Ltd

Prime Minister and Cabinet Portfolio

General Government:

Aboriginal Hostels Ltd (company limited by guarantee)
Australian Institute of Aboriginal and Torres Strait Islander Studies
Australian National Audit Office
Australian Public Service Commission
Department of the Prime Minister and Cabinet
Indigenous Business Australia
Indigenous Land and Sea Corporation

National Australia Day Council Limited (company limited by guarantee)
North Queensland Livestock Industry Recovery Agency
Office of National Intelligence
Office of the Official Secretary to the Governor-General
Outback Stores Pty Limited
Torres Strait Regional Authority
Workplace Gender Equality Agency

Public Non-Financial Corporation:

Voyages Indigenous Tourism Australia Pty Ltd

Social Services Portfolio

General Government:

Australian Institute of Family Studies
Department of Social Services
Digital Transformation Agency

National Disability Insurance Scheme Launch
Transition Agency (National Disability Insurance Agency)
NDIS Quality and Safeguards Commission
Services Australia

Public Non-Financial Corporation:

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
Commonwealth Grants Commission
Department of the Treasury
Financial Adviser Standards and Ethics Authority Ltd (company limited by guarantee)

Inspector-General of Taxation
National Competition Council
National Housing Finance and Investment Corporation (National Housing Infrastructure Facility)
Office of the Auditing and Assurance Standards Board
Office of the Australian Accounting Standards Board
Productivity Commission
Royal Australian Mint

Public Financial Corporations:

Australian Reinsurance Pool Corporation
National Housing Finance and Investment Corporation

Reserve Bank of Australia

Parliamentary Departments

General Government:

Department of Parliamentary Services
Department of the House of Representatives

Department of the Senate
Parliamentary Budget Office

Entity changes during 2018-19

Entities newly controlled/established in 2018-19

Aged Care Quality and Safety Commission (1 January 2019)¹
Australian Signals Directorate (1 July 2018)
NDIS Quality and Safeguards Commission (1 July 2018)
North Queensland Livestock Industry Recovery Agency (2 March 2019)
North Queensland Water Infrastructure Authority (28 March 2019)

Entities with name changes

Department of Agriculture
(previously Department of Agriculture and Water Resources)
Department of Education
(previously Department of Education and Training)
Department of Employment, Skills, Small and Family Business
(previously Department of Jobs and Small Business)
Department of Infrastructure, Transport, Cities and Regional Development
(previously Department of Infrastructure, Regional Development and Cities)
Indigenous Land and Sea Corporation
(previously Indigenous Land Corporation)
Office of National Intelligence
(previously Office of National Assessments)
Services Australia
(previously Department of Human Services)

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

¹ The Australian Aged Care Quality Agency ceased on 1 January 2019.

