

## APPENDIX A: FINANCIAL STATEMENTS

The financial statements consist of an operating statement, including other economic flows, a balance sheet, and a cash flow statement for the Australian Government general government sector (GGS).

The Charter requires that the PEFO be based on external reporting standards and that departures from applicable external reporting standards be identified.

The external standards used for reporting purposes are:

- the Australian Bureau of Statistics' (ABS) accrual Government Finance Statistics (GFS) publication, *Australian System of Government Finance Statistics: Concepts, Sources and Methods*, (cat. no. 5514.0), which in turn is based on the International Monetary Fund's (IMF) accrual GFS framework; and
- the Australian Accounting Standards (AAS) issued by the Australian Accounting Standards Board (AASB), which includes International Financial Reporting Standards (IFRS) as adopted in Australia and the public sector specific standard AASB 1049 *Whole of Government and General Government Sector Financial Reporting*.

The financial statements have been prepared on the same basis as the budget papers. The statements reflect the Government's accounting policy that ABS GFS remains the basis of budget accounting policy, except where the Government applies the AAS because it provides a better conceptual basis for presenting information of relevance to users of public sector financial reports.

Fiscal reporting focuses on the GGS. The GGS provides public services that are mainly non-market in nature and for the collective consumption of the community, or involve the transfer or redistribution of income. These services are largely financed through taxes and other compulsory levies, user charging and external funding. This sector comprises all government departments, offices and some other bodies. In preparing financial statements for the GGS, all material transactions and balances between entities within the GGS have been eliminated.

Authoritative guidance has not been issued under the AAS for the measurement of accrual revenue and expenses under the carbon pricing mechanism. An interpretation of the AAS for the carbon pricing mechanism is provided in this appendix. Current estimates measure revenue and expenses at the expected market price for carbon in the year in which emissions occur. The Department of Finance and Deregulation and the Department of the Treasury will continue to review this treatment in consultation with the ABS and the Australian National Audit Office (ANAO).

## DEPARTURES FROM EXTERNAL REPORTING STANDARDS

The Charter requires that departures from applicable external reporting standards be identified. The financial statements depart from the external reporting standards as follows.

### Departures from ABS GFS

ABS GFS requires that provisions for bad and doubtful debts be excluded from the balance sheet. This treatment has not been adopted in the financial statements because excluding such provisions would overstate the value of Australian Government assets in the balance sheet. The financial statements currently adopt AAS treatment for provisions for bad and doubtful debts.

ABS GFS treats coins on issue as a liability and no revenue is recognised. The ABS GFS treatment of circulating coins as a liability has not been adopted in the financial statements. Instead, the financial statements adopt AAS treatment for circulating coins (seigniorage). Under this treatment, seigniorage revenue is recognised upon the issue of coins and no liability is recorded.

ABS GFS records defence weapons platforms (DWP) as a non-financial asset on a market value basis (fair value), rather than expensing at time of acquisition. The value used by ABS is consistent with the National Accounts statistical methodology, and represents an early adoption of changes to the *System of National Accounts 2008*. ABS GFS treatment of DWP is consistent with AAS, as non-financial assets can be valued at fair value as long as they can be reliably measured, otherwise cost is permissible. DWP will be valued at cost in the financial statements, as they have in previous budgets, while the Australian Government ascertains if a relevant and reliable fair value can be sourced.

Under ABS GFS, concessional loans are recognised at their nominal value, that is, they are not discounted to fair (market) value as there is not considered to be a secondary market. This treatment has not been adopted for the financial statements. Consistent with AAS, loans issued at below market interest rates or with long repayment periods are recorded at fair value (by discounting them by market interest rates). The difference between the nominal value and the fair value of the loan is recorded as an expense which is written back over the life of the loan.

ABS GFS requires investments in unlisted public sector entities to be valued based on their net assets. Under AAS, investments in public sector entities can be valued at fair value as long as a fair value can be reliably measured, otherwise net assets is permissible. The AAS treatment has been adopted in the financial statements.

Movements in the provision for restoration, decommissioning and make-good of assets have been included in the calculation of the fiscal balance capital adjustment because in many cases they involve legal obligations to expend resources. ABS GFS

does not recognise adjustments for such provisions because they are considered a constructive obligation that may not materialise for many years.

ABS GFS treats the issuance and registration of Renewable Energy Certificates (RECs) under the Renewable Energy Target and Australian Carbon Credit Units (ACCUs) under the Carbon Farming Initiative as government financial transactions resulting in the recognition of assets, liabilities, tax revenue and expenses.

Under the interpretation of the AAS, the issuance and registration of such certificates is considered to be an administrative function and does not result in the recognition of an asset or liability and therefore no tax revenue or expense is recognised. The AAS treatment has been adopted in the financial statements.

### **Departures from AAS**

AAS requires the advances paid to the International Development Association and Asian Development Fund to be recognised at fair value. Under ABS GFS these advances are recorded at nominal value. The ABS GFS treatment is adopted in the financial statements.

Under AAS, prepayments are classified as non-financial assets. In accordance with ABS GFS, prepayments have been classified as financial assets in the financial statements. This treatment is consistent with the exclusion of prepayments from net acquisition of non-financial assets in the calculation of the fiscal balance.

The interpretation of the AAS indicates that transactions under the carbon pricing mechanism are recognised in the financial statements where they are expected to result in a receipt or payment of cash by the government at the amount of the expected cash settlement. The issuance and surrender of free carbon units and ACCUs used in the settlement of emissions liabilities do not qualify for recognition by the government as assets, liabilities, revenues or expenses.

- Revenues are recognised for the amount of cash received and receivable by the government for carbon units at the time when emissions occur, if able to be reliably measured.
- Expenses are recognised on issue of a free carbon unit, based on the number of free permits that are expected to be cashed in by the permit holders under the buy-back arrangements.
- Receivables/payables are recognised at the amount of cash expected to be received/paid by the government.

Transactions under the carbon pricing mechanism are recognised under ABS GFS at their expected market value at the time of the transaction.

- Revenues are recognised at the expected market value of carbon units at the time when emissions occur.
- Expenses are recognised for ACCUs issued in the fixed price period and all free carbon units at the expected market value at the time of issue.
- Receivables/payables are recognised at the carbon units' expected future market value for the reporting period.

In the fixed price period from 1 July 2012 to 30 June 2014, the price of carbon units that the government will pay under the buy-back arrangements and sell to liable emitters to settle their obligations is set by the government. This set price, which is the prevailing fixed price, has been taken to be the market value for the relevant year. Materially, the ABS GFS treatment has been adopted in the financial statements.

AASB 1049 requires disaggregated information, by ABS GFS function, for expenses and total assets to be disclosed where they are reliably attributable. ABS GFS does not require total assets attributed to functions. In accordance with ABS GFS, disaggregated information for expenses and net acquisition of non-financial assets was disclosed in the 2013-14 Budget.

AASB 1049 requires AAS measurement of items to be disclosed on the face of the financial statements with reconciliation to the ABS GFS measurement of key fiscal aggregates, where different, in notes to the financial statements. Differences from the AAS measurement of items are outlined above and a reconciliation has not been included as they would effectively create different measures of the same aggregate.

**Table A1: Australian Government general government sector operating statement**

	Estimates		Projections	
	2013-14 \$m	2014-15 \$m	2015-16 \$m	2016-17 \$m
<b>Revenue</b>				
Taxation revenue	358,928	376,488	410,733	441,306
Sales of goods and services	8,638	8,569	8,750	8,903
Interest income	3,965	3,994	4,389	4,848
Dividend income	2,293	2,428	2,646	2,737
Other	6,123	6,260	6,746	6,856
<b>Total revenue</b>	<b>379,947</b>	<b>397,739</b>	<b>433,265</b>	<b>464,650</b>
<b>Expenses</b>				
Gross operating expenses				
Wages and salaries(a)	19,537	19,499	20,086	21,092
Superannuation	4,095	4,120	4,229	4,211
Depreciation and amortisation	5,840	6,117	6,405	6,600
Supply of goods and services	76,428	78,073	81,762	84,565
Other operating expenses(a)	5,706	5,953	6,201	6,266
<i>Total gross operating expenses</i>	<i>111,607</i>	<i>113,761</i>	<i>118,682</i>	<i>122,735</i>
Superannuation interest expense	8,462	8,839	9,160	9,496
Interest expenses	14,174	15,161	16,009	16,128
Current transfers				
Current grants	118,999	125,436	130,658	139,494
Subsidy expenses	15,206	13,068	13,500	14,857
Personal benefits	122,731	129,215	134,370	143,849
<i>Total current transfers</i>	<i>256,937</i>	<i>267,718</i>	<i>278,527</i>	<i>298,200</i>
Capital transfers				
Mutually agreed write-downs	2,277	2,457	2,648	2,823
Other capital grants	8,029	8,047	5,885	5,154
<i>Total capital transfers</i>	<i>10,306</i>	<i>10,505</i>	<i>8,533</i>	<i>7,977</i>
<b>Total expenses</b>	<b>401,485</b>	<b>415,985</b>	<b>430,911</b>	<b>454,536</b>
<b>Net operating balance</b>	<b>-21,538</b>	<b>-18,245</b>	<b>2,354</b>	<b>10,114</b>
<b>Other economic flows - included in operating result</b>				
Net write-downs of assets (including bad and doubtful debts)	-7,565	-6,632	-7,607	-8,590
Assets recognised for the first time	560	587	613	640
Liabilities recognised for the first time	0	0	0	0
Actuarial revaluations	0	0	0	0
Net foreign exchange gains	132	106	65	11
Net swap interest received	0	0	0	0
Market valuation of debt	357	946	500	302
Other gains/(losses)	3,672	3,794	6,510	3,412
<b>Total other economic flows - included in operating result</b>	<b>-2,844</b>	<b>-1,198</b>	<b>81</b>	<b>-4,224</b>
<b>Operating result(b)</b>	<b>-24,382</b>	<b>-19,444</b>	<b>2,435</b>	<b>5,890</b>
<b>Non-owner movements in equity</b>				
Revaluation of equity investments	-2,223	0	0	0
Actuarial revaluations	-936	181	218	252
Other economic revaluations	568	258	91	1,124
<b>Total other economic flows - included in equity</b>	<b>-2,591</b>	<b>440</b>	<b>309</b>	<b>1,376</b>
<b>Comprehensive result -</b>				
<b>Total change in net worth</b>	<b>-26,974</b>	<b>-19,004</b>	<b>2,744</b>	<b>7,267</b>

**Table A1: Australian Government general government sector operating statement (continued)**

	Estimates		Projections	
	2013-14 \$m	2014-15 \$m	2015-16 \$m	2016-17 \$m
<b>Net operating balance</b>	<b>-21,538</b>	<b>-18,245</b>	<b>2,354</b>	<b>10,114</b>
<b>Net acquisition of non-financial assets</b>				
Purchases of non-financial assets	10,278	9,762	9,511	8,912
<i>less</i> Sales of non-financial assets	357	264	2,626	227
<i>less</i> Depreciation	5,840	6,117	6,405	6,600
<i>plus</i> Change in inventories	274	236	323	369
<i>plus</i> Other movements in non-financial assets	-386	216	-297	-131
<b>Total net acquisition of non-financial assets</b>	<b>3,970</b>	<b>3,833</b>	<b>507</b>	<b>2,322</b>
<b>Fiscal balance (Net lending/borrowing)(c)</b>	<b>-25,508</b>	<b>-22,078</b>	<b>1,847</b>	<b>7,792</b>

- (a) Consistent with ABS GFS classification, other employee related expenses are reported under other operating expenses. Total employee expenses equal wages and salaries plus other operating expenses.
- (b) Operating result under AAS.
- (c) The term fiscal balance is not used by the ABS.

**Table A2: Australian Government general government sector balance sheet**

	Estimates		Projections	
	2013-14 \$m	2014-15 \$m	2015-16 \$m	2016-17 \$m
<b>Assets</b>				
Financial assets				
Cash and deposits	2,776	2,657	2,591	2,874
Advances paid	40,698	46,621	52,936	61,188
Investments, loans and placements	112,292	115,086	120,611	132,970
Other receivables	44,866	45,186	50,652	57,232
Equity investments				
Investments in other public sector entities	24,769	31,407	37,115	42,171
Equity accounted investments	331	334	337	340
Investments - shares	35,105	37,932	40,888	44,348
<i>Total financial assets</i>	<i>260,837</i>	<i>279,222</i>	<i>305,130</i>	<i>341,123</i>
Non-financial assets				
Land	8,719	8,663	8,634	8,603
Buildings	25,160	25,731	25,920	26,232
Plant, equipment and infrastructure	55,914	58,483	60,848	62,115
Inventories	7,210	7,045	6,975	6,931
Intangibles	5,426	5,422	5,472	5,612
Investment property	182	182	182	182
Biological assets	37	37	37	37
Heritage and cultural assets	10,463	10,474	10,486	10,499
Assets held for sale	83	121	83	83
Other non-financial assets	409	624	327	197
<i>Total non-financial assets</i>	<i>113,603</i>	<i>116,784</i>	<i>118,964</i>	<i>120,490</i>
<b>Total assets</b>	<b>374,440</b>	<b>396,006</b>	<b>424,094</b>	<b>461,613</b>
<b>Liabilities</b>				
Interest bearing liabilities				
Deposits held	192	192	192	192
Government securities	325,513	362,888	381,781	401,224
Loans	12,581	12,001	11,786	11,672
Other borrowing	1,529	1,412	1,361	1,282
<i>Total interest bearing liabilities</i>	<i>339,814</i>	<i>376,493</i>	<i>395,121</i>	<i>414,370</i>
Provisions and payables				
Superannuation liability	149,786	155,143	160,562	166,077
Other employee liabilities	14,891	15,080	15,104	15,556
Suppliers payable	4,266	4,316	4,365	4,394
Personal benefits provisions and payable	13,879	14,142	14,392	14,848
Subsidies provisions and payable	3,614	3,632	4,266	5,279
Grants provisions and payable	15,592	13,105	11,640	12,275
Other provisions and payables	14,476	14,976	16,782	19,687
<i>Total provisions and payables</i>	<i>216,503</i>	<i>220,394</i>	<i>227,111</i>	<i>238,115</i>
<b>Total liabilities</b>	<b>556,318</b>	<b>596,887</b>	<b>622,232</b>	<b>652,485</b>
<b>Net worth(a)</b>	<b>-181,878</b>	<b>-200,882</b>	<b>-198,138</b>	<b>-190,872</b>
<i>Net financial worth(b)</i>	<i>-295,480</i>	<i>-317,665</i>	<i>-317,102</i>	<i>-311,362</i>
<i>Net financial liabilities(c)</i>	<i>320,250</i>	<i>349,072</i>	<i>354,217</i>	<i>353,533</i>
<i>Net debt(d)</i>	<i>184,048</i>	<i>212,130</i>	<i>218,983</i>	<i>217,338</i>

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

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

(c) Net financial liabilities equals total liabilities less financial assets other than investments in other public sector entities.

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

**Table A3: Australian Government general government sector cash flow statement<sup>(a)</sup>**

	Estimates		Projections	
	2013-14 \$m	2014-15 \$m	2015-16 \$m	2016-17 \$m
<b>Cash receipts from operating activities</b>				
Taxes received	348,110	367,506	398,661	428,111
Receipts from sales of goods and services	8,686	8,519	8,691	8,852
Interest receipts	3,744	3,646	4,075	4,262
Dividends and income tax equivalents	2,748	2,463	2,679	2,695
Other receipts	5,748	5,941	6,686	6,654
<b>Total operating receipts</b>	<b>369,035</b>	<b>388,076</b>	<b>420,793</b>	<b>450,574</b>
<b>Cash payments for operating activities</b>				
Payments for employees	-26,729	-26,897	-28,029	-29,004
Payments for goods and services	-76,903	-78,034	-81,877	-84,808
Grants and subsidies paid	-142,112	-148,205	-149,742	-157,040
Interest paid	-12,119	-13,173	-15,592	-14,262
Personal benefit payments	-123,459	-129,264	-134,459	-143,544
Other payments	-5,458	-5,791	-6,002	-5,793
<b>Total operating payments</b>	<b>-386,782</b>	<b>-401,363</b>	<b>-415,701</b>	<b>-434,450</b>
<b>Net cash flows from operating activities</b>	<b>-17,746</b>	<b>-13,287</b>	<b>5,092</b>	<b>16,124</b>
<b>Cash flows from investments in non-financial assets</b>				
Sales of non-financial assets	416	2,229	2,626	227
Purchases of non-financial assets	-9,396	-9,961	-9,191	-8,760
<b>Net cash flows from investments in non-financial assets</b>	<b>-8,980</b>	<b>-7,732</b>	<b>-6,565</b>	<b>-8,532</b>
<b>Net cash flows from investments in financial assets for policy purposes</b>	<b>-9,966</b>	<b>-12,575</b>	<b>-12,491</b>	<b>-13,541</b>
<b>Cash flows from investments in financial assets for liquidity purposes</b>				
Increase in investments	-1,742	-3,532	-5,650	-12,113
<b>Net cash flows from investments in financial assets for liquidity purposes</b>	<b>-1,742</b>	<b>-3,532</b>	<b>-5,650</b>	<b>-12,113</b>
<b>Cash receipts from financing activities</b>				
Borrowing	40,650	39,419	22,059	21,521
Other financing	0	0	0	0
<b>Total cash receipts from financing activities</b>	<b>40,650</b>	<b>39,419</b>	<b>22,059</b>	<b>21,521</b>
<b>Cash payments for financing activities</b>				
Borrowing	0	0	0	0
Other financing	-2,015	-2,413	-2,510	-3,176
<b>Total cash payments for financing activities</b>	<b>-2,015</b>	<b>-2,413</b>	<b>-2,510</b>	<b>-3,176</b>
<b>Net cash flows from financing activities</b>	<b>38,634</b>	<b>37,006</b>	<b>19,548</b>	<b>18,345</b>
<b>Net increase/(decrease) in cash held</b>	<b>199</b>	<b>-120</b>	<b>-65</b>	<b>283</b>



**Table A3: Australian Government general government sector cash flow statement<sup>(a)</sup>  
(continued)**

	Estimates		Projections	
	2013-14 \$m	2014-15 \$m	2015-16 \$m	2016-17 \$m
<b>Net cash flows from operating activities and investments in non-financial assets (Surplus+)/deficit(-)</b>	<b>-26,727</b>	<b>-21,019</b>	<b>-1,473</b>	<b>7,592</b>
Finance leases and similar arrangements(b)	-469	0	0	0
<b>GFS cash surplus(+)/deficit(-)</b>	<b>-27,195</b>	<b>-21,019</b>	<b>-1,473</b>	<b>7,592</b>
less Net Future Fund earnings	2,946	2,962	3,189	3,393
<b>Equals underlying cash balance(c)</b>	<b>-30,142</b>	<b>-23,981</b>	<b>-4,662</b>	<b>4,199</b>
plus Net cash flows from investments in financial assets for policy purposes	-9,966	-12,575	-12,491	-13,541
plus Net Future Fund earnings	2,946	2,962	3,189	3,393
<b>Equals headline cash balance</b>	<b>-37,162</b>	<b>-33,593</b>	<b>-13,964</b>	<b>-5,949</b>

(a) A positive number denotes a cash inflow; a negative number denotes a cash outflow.

(b) The acquisition of assets under finance leases decreases the underlying cash balance. The disposal of assets previously held under finance leases increases the underlying cash balance.

(c) The term underlying cash balance is not used by the ABS.

