04
Financial statements

Australian National
Audit Office

INDEPENDENT AUDITOR'S REPORT

To the Treasurer

Opinion

In my opinion, the financial statements of the Department of the Treasury for the year ended 30 June 2017:

(a) comply with Australian Accounting Standards – Reduced Disclosure Requirements and the *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015*; and

(b) present fairly the financial position of the Department of the Treasury as at 30 June 2017 and its financial performance and cash flows for the year then ended.

The financial statements of the Department of the Treasury, which I have audited, comprise the following statements as at 30 June 2017 and for the year then ended:

- Statement by the Departmental Secretary and Chief Financial Officer;
- Statement of Comprehensive Income;
- Statement of Financial Position;
- Statement of Changes in Equity;
- Cash Flow Statement;
- Administered Schedule of Comprehensive Income;
- Administered Schedule of Assets and Liabilities;
- Administered Reconciliation Schedule;
- Administered Cash Flow Statement; and
- Notes to and forming part of the financial statements, comprising an Overview, 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 Department of the Treasury in accordance with the relevant ethical requirements for financial statement audits conducted by the Auditor-General and his delegates. These include the relevant independence requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* to the extent that they are not in conflict with the *Auditor-General Act 1997* (the Code). 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 financial statements of the current period. These matters were addressed in the context of my audit of the 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
Accuracy and Occurrence of Grants Expense *Refer to Note 4.1A: Grants and Note 5.2A: Grants* I focused on this area due to the value of the grants paid by the Department of the Treasury and the complex eligibility criteria for a number of the grants. The Department of the Treasury is also reliant on the accuracy of advice from State and Territory	The audit procedures that I applied to address the matter included: • examined the Department of the Treasury's risk assessment and monitoring processes over the National Partnership agreements; • on a sample basis, performed testing of processes

governments to confirm the eligibility criteria have been met to trigger the grant payment. For the year ended 30 June 2017, the value of grants paid by the Department of the Treasury under the *Federal Financial Relations Act 2009* was $94.1 billion.	within other Australian Government entities to support the advice provided to the Department of the Treasury for the payment of each grant; • on a sample basis, tested the payment certification process, including entity authorisations and the Department of the Treasury's validation of systems data; • on a sample basis, tested payments processed by the Department of the Treasury, including an assessment of the Treasurer's determination process; and • on a sample basis, assessed compliance with the *Federal Financial Relations Act 2009* and the Inter-Governmental Agreement on Federal Financial Relations including compliance with conditions contained within National Partnership agreements.

Key audit matter	**How the audit addressed the matter**
Valuation of the Natural Disaster Relief and Recovery Arrangement Provision *Refer to Note 5.4A: Other Provisions* I focused on this area due to the value of the balance and the complexities in the judgements involved in calculating the estimated provision. Due to the nature of disasters, there is uncertainty in the estimated costs to restore State and Territory infrastructure to its original condition at the time of the disaster. For the year ended 30 June 2017 the provision for the payment of costs associated with the Natural Disaster Relief and Recovery Arrangement was valued at $704.9 million.	The audit procedures that I applied to address the matter included: • examined the results of the Commonwealth's assessment of the eligibility of costs estimated under the the Natural Disaster Relief and Recovery Arrangement Determination. On a sample basis, re-performed the Commonwealth's assessment to determine if it was appropriate; • assessed the explanations provided by the State and Territory Governments supporting the movement in quarterly estimates data to determine if the Department's reliance upon them was appropriate; • assessed the Commonwealth's progress in accessing and reviewing project level data from the State and Territory Governments supporting the provision estimate; • agreed the provision calculation to the Natural Disaster Relief and Recovery Arrangement Determination and determined if the provision calculation was in line with the estimates provided by the State and Territory Governments; and • assessed whether the assumptions used in the calculation of the provision were reasonable.

Accountable Authority's Responsibility for the Financial Statements

As the Accountable Authority of the Department of the Treasury the Secretary is responsible under the *Public Governance, Performance and Accountability Act 2013* for the preparation and fair presentation of annual financial statements that comply with Australian Accounting Standards – Reduced Disclosure Requirements and the rules made under that Act. The Secretary is also responsible for such internal control as the Secretary determines is necessary to enable the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Secretary is responsible for assessing the Department of the Treasury's ability 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 Secretary is also responsible for disclosing matters related to going concern as applicable 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 Financial Statements

My objective is to obtain reasonable assurance about whether the 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 financial statements.

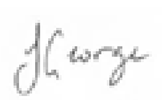
As part of an audit in accordance with the Australian National Audit Office Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the 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 entity's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Accountable Authority;
- conclude on the appropriateness of the Accountable Authority'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 entity'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 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 entity to cease to continue as a going concern; and
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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 statements of the current period and are therefore the key audit matters. I describe these matters in our 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 our 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



Jodi George
Acting Executive Director

Canberra
14 September 2017

The Treasury

Statement by the Departmental Secretary and Chief Financial Officer

In our opinion, the attached financial statements for the year ended 30 June 2017 comply with subsection 42(2) of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act), and are based on properly maintained financial records as per subsection 41(2) of the PGPA Act.

In our opinion, at the date of this statement, there are reasonable grounds to believe that the Treasury will be able to pay its debts as and when they fall due.

John A. Fraser
Secretary
14 September 2017

Robert Twomey
Chief Financial Officer
14 September 2017

Statement of Comprehensive Income

for the period ended 30 June 2017

	Notes	2017 $'000	2016 $'000
NET COST OF SERVICES			
Expenses			
Employee benefits	1.1A	**123,782**	122,744
Suppliers	1.1B	**55,429**	51,877
Grants	1.1C	**1,245**	2,925
Depreciation and amortisation	2.2A	**10,360**	8,803
Write-down and impairment of assets	2.2A	**532**	100
Losses from asset sales	1.1D	**-**	35
Finance costs	2.4	**11**	86
Total expenses		**191,359**	186,570
Own-Source Income			
Own-source revenue			
Rendering of services	1.2A	**9,419**	9,447
Other revenue	1.2B	**1,073**	1,347
Total own-source revenue		**10,492**	10,794
Gains			
Gains from sale of assets	1.2C	**43**	-
Other gains	1.2D	**3,272**	4,006
Total gains		**3,315**	4,006
Total own-source income		**13,807**	14,800
Net (cost of)/contribution by services		**(177,552)**	(171,770)
Revenue from Government	1.2E	**170,496**	160,109
Surplus/(Deficit)		**(7,056)**	(11,661)
OTHER COMPREHENSIVE INCOME			
Items not subject to subsequent reclassification to net cost of services			
Changes in asset revaluation reserves		**228**	6,024
Total other comprehensive income		**228**	6,024
Total comprehensive (loss) attributable to the Australian Government		**(6,828)**	(5,637)

This statement should be read in conjunction with the accompanying notes.

Statement of Financial Position

as at 30 June 2017

	Notes	2017 $'000	2016 $'000
ASSETS			
Financial assets			
Cash and cash equivalents	2.1A	**1,250**	2,776
Trade and other receivables	2.1B	**56,519**	50,445
Total financial assets		**57,769**	53,221
Non-financial assets			
Land and buildings	2.2A	**16,159**	14,280
Plant and equipment	2.2A	**7,851**	9,627
Intangibles	2.2A	**9,804**	9,730
Prepayments	2.2B	**5,631**	4,888
Total non-financial assets		**39,445**	38,525
Total assets		**97,214**	91,746
LIABILITIES			
Payables			
Suppliers	2.3A	**10,127**	3,250
Other payables	2.3B	**2,483**	2,996
Total payables		**12,610**	6,246
Provisions			
Employee provisions	3.1A	**46,705**	46,567
Provision for restoration	2.4	**3,440**	3,279
Total provisions		**50,145**	49,846
Total liabilities		**62,755**	56,092
Net assets		**34,459**	35,654
EQUITY			
Asset revaluation reserve		**12,414**	12,186
Contributed equity		**64,136**	58,538
Retained surplus/(deficit)		**(42,091)**	(35,070)
Total equity		**34,459**	35,654

This statement should be read in conjunction with the accompanying notes.

Statement of Changes in Equity

for the period ended 30 June 2017

	2017 $'000	2016 $'000
CONTRIBUTED EQUITY		
Opening balance	**58,538**	51,526
Transactions with owners		
Contributions by owners		
Equity injection appropriation	**300**	1,700
Departmental capital budget appropriation	**5,298**	5,312
Total transactions with owners	**5,598**	7,012
Closing balance as at 30 June	**64,136**	58,538
RETAINED EARNINGS		
Opening balance	**(35,070)**	(22,951)
Adjustment to opening balance	**35**	(458)
Comprehensive income		
Surplus/(Deficit) for the period	**(7,056)**	(11,661)
Total comprehensive income	**(7,056)**	(11,661)
Closing balance as at 30 June	**(42,091)**	(35,070)
ASSET REVALUATION RESERVE		
Opening balance	**12,186**	6,162
Comprehensive income		
Other comprehensive income	**378**	6,024
Changes in provision for restoration	**(150)**	-
Total comprehensive income	**228**	6,024
Closing balance as at 30 June	**12,414**	12,186
TOTAL EQUITY		
Opening balance	**35,654**	34,737
Adjustment to opening balance	**35**	(458)
Comprehensive income		
Other comprehensive income	**228**	6,024
Surplus/(Deficit) for the period	**(7,056)**	(11,661)
Total comprehensive income	**(6,828)**	(5,637)
Transactions with owners		
Contributions by owners		
Equity injection appropriation	**300**	1,700
Departmental capital budget appropriation	**5,298**	5,312
Total transactions with owners	**5,598**	7,012
Closing balance as at 30 June	**34,459**	35,654

This statement should be read in conjunction with the accompanying notes.

Accounting Policy

Equity injections

Amounts appropriated which are designated as 'equity injections' for a year (less any formal reductions) and Departmental Capital Budgets (DCBs) are recognised directly in contributed equity in that year.

Restructuring of administrative arrangements

Net assets received from or relinquished to another government entity under a restructuring of administrative arrangements are adjusted at their book value directly against contributed equity.

Other distributions to owners

The Financial Reporting Rule (FFR) requires that distributions to owners be debited to contributed equity unless it is in the nature of a dividend.

Cash Flow Statement

for the period ended 30 June 2017

	2017 $'000	2016 $'000
OPERATING ACTIVITIES		
Cash received		
Appropriations	**183,993**	185,495
Sale of goods and rendering of services	**6,304**	7,109
GST received from ATO	**4,791**	5,399
Other	**518**	1,461
Total cash received	**195,606**	199,464
Cash used		
Employees	**123,496**	122,797
Suppliers	**44,544**	51,481
Grants	**1,245**	2,925
Section 74 receipts transferred to OPA[1]	**17,769**	15,534
GST paid to ATO	**4,920**	5,562
Other	**-**	2
Total cash used	**191,974**	198,301
Net cash from/(used by) operating activities	**3,632**	1,163
INVESTING ACTIVITIES		
Cash received		
Proceeds from sales of plant and equipment	**50**	18
Total cash received	**50**	18
Cash used		
Purchase of land and buildings	**2,818**	4,189
Purchase of plant and equipment	**2,748**	752
Purchase of intangibles	**5,240**	5,628
Total cash used	**10,806**	10,569
Net cash from/(used by) investing activities	**(10,756)**	(10,551)
FINANCING ACTIVITIES		
Cash received		
Contributed equity - departmental capital budget	**5,298**	5,312
Contributed equity - equity injections	**300**	1,700
Total cash received	**5,598**	7,012
Net cash from/(used by) financing activities	**5,598**	7,012
Net increase/(decrease) in cash held	**(1,526)**	(2,376)
Cash at the beginning of the reporting period	**2,776**	5,152
Cash at the end of the reporting period	**1,250**	2,776

This statement should be read in conjunction with the accompanying notes.

1. The comparative figures have been amended to reclassify PGPA Act section 74 receipts as a separate operating cash outflow and inflow.

Administered Schedule of Comprehensive Income

for the period ended 30 June 2017

	Notes	2017 $'000	2016 $'000
NET COST OF SERVICES			
Expenses			
Grants	4.1A	**94,258,724**	88,032,393
Interest		**15,252**	3,276
Foreign exchange losses	4.1B	**211,174**	-
Suppliers		**8,557**	2,048
Total expenses		**94,493,707**	88,037,717
Income			
Revenue			
Non-taxation revenue			
Sale of goods and rendering of services	4.2A	**696,216**	690,441
Interest	4.2B	**3,454**	2,680
Dividends	4.2C	**1,343,500**	3,279,246
COAG revenue from government agencies	4.2D	**89,358**	268,887
Other	4.2E	**99,141**	76,604
Total non-taxation revenue		**2,231,669**	4,317,858
Total revenue		**2,231,669**	4,317,858
Gains			
Foreign exchange gains	4.2F	**-**	16,736
Total gains		**-**	16,736
Total income		**2,231,669**	4,334,594
Net (cost of)/contribution by services		**(92,262,038)**	(83,703,123)
Surplus/(Deficit)		**(92,262,038)**	(83,703,123)
OTHER COMPREHENSIVE INCOME			
Items not subject to subsequent reclassification to net cost of services			
Changes in asset revaluation surplus		**(2,170,851)**	(305,232)
Total comprehensive income/(loss)		**(94,432,889)**	(84,008,355)

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

Administered Schedule of Assets and Liabilities

as at 30 June 2017

	Notes	2017 $'000	2016 $'000
ASSETS			
Financial assets			
Loans and other receivables	5.1A	**2,059,375**	4,168,375
Investments	5.1B	**35,212,886**	37,705,781
Total financial assets		**37,272,261**	41,874,156
Non-financial assets			
Other		**381**	401
Total non-financial assets		**381**	401
Total assets administered on behalf of Government		**37,272,642**	41,874,557
LIABILITIES			
Payables			
Grants	5.2A	**793,657**	187,053
Other payables	5.2B	**5,579,567**	5,796,098
Unearned income	5.2C	**26,455**	47,872
Total payables		**6,399,679**	6,031,023
Interest bearing liabilities			
Promissory notes	5.3A	**9,626,864**	9,651,149
Total interest bearing liabilities		**9,626,864**	9,651,149
Provisions			
Other provisions	5.4A	**704,917**	1,725,063
Total provisions		**704,917**	1,725,063
Total liabilities administered on behalf of government		**16,731,460**	17,407,235
Net assets/(liabilities)		**20,541,182**	24,467,322

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

Administered Reconciliation Schedule

for the period ended 30 June 2017

	2017 $'000	2016 $'000
Opening assets less liabilities as at 1 July	**24,467,322**	23,012,528
Net (cost of)/contribution by services		
Income	**2,231,669**	4,334,594
Expenses		
Payments to entities other than corporate Commonwealth entities	**(94,493,707)**	(88,037,717)
Payments to corporate Commonwealth entities	**-**	-
Other comprehensive income		
Revaluations transferred to reserves	**(2,170,851)**	(305,232)
Transfers (to)/from Australian Government		
Appropriation transfers from OPA		
Administered assets and liabilities appropriations	**-**	-
Annual appropriation for administered expenses		
Payments to entities other than corporate Commonwealth entities	**40,527**	43,913
Payments to corporate Commonwealth entities	**-**	-
Special appropriations (limited)		
Payments to entities other than corporate Commonwealth entities	**-**	-
Special appropriations (unlimited)		
Payments to entities other than corporate Commonwealth entities	**81,633,062**	80,462,041
Special accounts - COAG Reform Fund	**12,456,508**	9,403,901
Refunds of receipts (s77 PGPA)	**2**	307
Appropriation transfers to OPA		
Transfers to OPA - appropriations	**(3,533,098)**	(2,940,226)
Transfers to OPA - special accounts	**(90,252)**	(268,887)
Restructuring	**-**	(1,237,900)
Closing assets less liabilities as at 30 June	**20,541,182**	24,467,322

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

Accounting Policy

Administered cash transfers to and from the Official Public Account

Revenue collected by the Treasury for use by the Government rather than the Treasury is administered revenue. Collections are transferred to the Official Public Account (OPA) maintained by the Department of Finance. Conversely, cash is drawn from the OPA to make payments under Parliamentary appropriations on behalf of the Government. These transfers to and from the OPA are adjustments to administered cash held by the Treasury on behalf of the Government and reported as such in the schedule of administered cash flows and in the administered reconciliation schedule.

Administered Cash Flow Statement

for the period ended 30 June 2017

	2017 $'000	2016 $'000
OPERATING ACTIVITIES		
Cash received		
Sale of goods and rendering of services	**14,131**	18,729
Interest	**1,840**	699
Dividends	**3,279,319**	2,558,672
HIH Group liquidation proceeds	**2,456**	16,362
COAG receipts from government agencies	**90,252**	268,887
Other receipts from government agencies[1]	**18,139,055**	16,701,161
Other	**98,364**	60,359
Total cash received	**21,625,417**	19,624,869
Cash used		
Grant payments	**93,892,136**	87,962,312
Other grants to the States and Territories[1]	**18,139,055**	16,701,161
Interest	**10,523**	3,253
Other	**9,559**	9,957
Total cash used	**112,051,273**	104,676,683
Net cash from/(used by) operating activities	**(90,425,856)**	(85,051,814)
INVESTING ACTIVITIES		
Cash received		
Repayment of IMF loans	**25,538**	116,532
IMF maintenance of value	**112,929**	167,569
Total cash received	**138,467**	284,101
Cash used		
Settlement of IMF loans	**-**	64,263
Settlement of IMF maintenance of value	**-**	36
Settlement of international financial institution's obligations	**219,360**	1,869,037
Total cash used	**219,360**	1,933,336
Net cash from/(used by) investing activities	**(80,893)**	(1,649,235)
Net increase (decrease) in cash held	**(90,506,749)**	(86,701,049)
Cash from Official Public Account		
Appropriations	**81,675,239**	80,506,261
Special accounts	**12,456,508**	9,403,901
Total cash from Official Public Account	**94,131,747**	89,910,162
Cash to Official Public Account		
Appropriations	**3,534,746**	2,940,226
Special accounts	**90,252**	268,887
Total cash to Official Public Account	**3,624,998**	3,209,113
Net cash from/(to) Official Public Account	**90,506,749**	86,701,049
Cash and cash equivalents at the end of the reporting period	**-**	-

This schedule should be read in conjunction with the accompanying notes.

1. These balances reflect the payments that are facilitated by the Treasury to the States and Territories for education services and the Water for the Environment Special Account. Refer to Note 6.1D for more information.

Notes to and forming part of the financial statements

for the period ended 30 June 2017

Overview

The Basis of Preparation

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of section 42 of the *Public Governance, Performance and Accountability Act 2013*.

The Financial Statements have been prepared in accordance with:

- *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015 (FRR)* for the reporting periods ending on or after 1 July 2015;
- Australian Accounting Standards and interpretations – Reduced Disclosure Requirements issued by the Australian Accounting Standards Board (AASB) that apply for the reporting period.

The Department has applied the Reduced Disclosure Requirements issued by the AASB with the exception of disclosures for administered activities prepared under the following accounting standards, as required under Subsection 18(3) of the *Public Governance, Performance and Accountability (Financial Reporting) Rule 201*5 (FRR):

- AASB 7 Financial Instruments: Disclosure,
- AASB 12 Disclosure of Interests in Other Entities, and
- AASB 13 Fair Value Measurement.

The financial statements have been prepared on an accrual basis and are in accordance with the historical cost convention, except for certain assets at fair value. Except where stated, no allowance is made for the effect of changing prices on the results or the financial position. The financial statements are presented in Australian dollars. The financial report is rounded to the nearest thousand.

Reporting of Administered Activities

Administered revenues, expenses, assets, liabilities and cash flows are disclosed in the administered schedules and related notes.

Except where otherwise stated, administered items are accounted for on the same basis and using the same policies as for departmental items, including the application of Australian Accounting Standards.

Appropriations of administered capital are recognised in administered equity when the amounts appropriated by Parliament are drawn down. For the purposes of the Treasury annual report, administered equity transactions are not disclosed separately.

New Accounting Standards

Adoption of New Australian Accounting Standard Requirements

No accounting standard has been adopted earlier than the application date as stated in the standard. There have been no new standards, amended standards or interpretations that were issued prior to the signing of the statement and were applicable to the current reporting period and had a material effect on the Treasury's financial statements.

Future Australian Accounting Standard requirements

The following revised standards were issued by the Australian Accounting Standards Board prior to the signing of the statement by the Accountable Authority and Chief Financial Officer, which are expected to have a material impact on the entity's financial statements for the future reporting period(s):

Standard	Application date for the entity	Nature of impending changes in accounting policy and likely impact on initial application
AASB 124 – Related Party Disclosures & AASB 1049 – Whole of Government and General Government Sector Financial Reporting	1 July 2016	Extending related party disclosures to not-for-profit public sector entities. The amendments are applied prospectively as of the beginning of the annual reporting period in which the standard is initially applied.
AASB 9 – Financial Instruments	1 January 2018	Key changes are: • requirements for impairment of financial assets based on a three-stage 'expected loss' approach; • addition of a third measurement category for debt instruments 'fair value through other comprehensive income'; • expansion of disclosures required in relation to credit risk.
AASB 16 – Leases	1 January 2019	Requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months. Leases will be initially measured on a present value basis and includes non-cancellable lease payments.

Taxation

The Treasury is exempt from all forms of taxation except Fringe Benefits Tax (FBT) and the Goods and Services Tax (GST).

Revenues, expenses and assets are recognised net of GST except:

- where the amount of GST incurred is not recoverable from the Australian Taxation Office; and
- for receivables and payables.

Foreign currency

Transactions denominated in a foreign currency are converted at the exchange rate at the date of the transaction. Foreign currency receivables and payables are translated at the exchange rates current as at balance date.

Compliance with Statutory Conditions for Payments from the Consolidated Revenue Fund

During 2016-17 Treasury reviewed its exposure to the risk of not complying with statutory conditions on payments from appropriations, namely section 83 of the Constitution. To minimise potential breaches, Treasury continues its established verification procedures, in consultation with the Portfolio Departments, particularly in relation to payments under the *Federal Financial Relations Act 2009* and *COAG Reform Fund Act 2008*. An assessment framework determines the risk profile of each National Partnership agreement (NPA) which forms the basis of what additional assurance may be required when making a payment. This review identified that with the exception of the previously identified breaches outlined below no other payments were made in contravention of section 83 of the Constitution.

Five breaches occurred between July through to October 2016. All five breaches pertained to the Cost of Older People under Specialist Disability Service Agreement, totalling $880,000. Treasury processed these payments when the agreement had not been signed by the relevant Minister. A review of the events leading to these breaches has been conducted by Treasury and there is no evidence this is a systemic issue. The total amount has been offset against the future National Partnership payments to the relevant jurisdiction in the 2016-17 year.

Treasury will continue to monitor its level of compliance with section 83 of the Constitution across all legislation for which it is administratively responsible.

Events After the Reporting Period

Departmental and Administered

There are no known events occurring after the reporting period that could impact on the financial statements.

1. Departmental Financial Performance

This section analyses the financial performance of the Treasury for the year ended 2017.

1.1 Expenses

	2017 $'000	2016 $'000
Note 1.1A: Employee benefits		
Wages and salaries	**92,336**	89,409
Superannuation		
Defined contribution plans	**7,336**	6,441
Defined benefit plans	**8,890**	9,648
Redundancies	**924**	690
Leave and other entitlements	**11,268**	13,675
Other	**3,028**	2,881
Total employee benefits	**123,782**	122,744

Accounting Policy

Accounting policies for employee related expenses are contained in Note 3: People and Relationships.

	2017 $'000	2016 $'000
Note 1.1B: Suppliers		
Goods and services supplied or rendered		
Information communication technology	**7,647**	7,296
Conferences and training	**2,108**	2,412
Consultants, secondees and contractors	**16,753**	16,872
Fees - audit, accounting, bank and other	**1,638**	1,786
Insurance	**684**	657
Legal	**1,823**	2,103
Printing	**427**	370
Property operating expenses	**13,072**	11,553
Publications and subscriptions	**4,221**	1,693
Travel	**4,955**	4,947
Other	**2,101**	2,188
Total goods and services supplied or rendered	**55,429**	51,877
Goods supplied	**4,856**	2,748
Services rendered	**42,449**	40,760
Total goods and services supplied or rendered	**47,305**	43,508
Other suppliers		
Operating lease rentals	**7,726**	8,019
Workers compensation premiums	**398**	350
Total other suppliers	**8,124**	8,369
Total suppliers	**55,429**	51,877
Leasing commitments		
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within 1 year	**8,824**	7,686
Between 1 to 5 years	**31,144**	30,298
More than 5 years	**27,600**	34,466
Total operating lease commitments	**67,568**	72,450

Operating leases included are effectively noncancellable and comprise of:

Nature of lease	General description of leasing arrangement
Leases for accommodation	Commercial — leases comprise of various periods, including both initial and options periods. Located in Canberra, Sydney and Melbourne. Overseas estate — some commercial lease payments are adjusted annually and residential lease payments are escalated annually and similarly reviewed every three years to reflect market movements. The initial periods of office accommodation leases are still current and each may be renewed with options for a further six years.

Accounting Policy

Leases

Where an asset is acquired by means of a finance lease, the asset is capitalised at either the fair value of the leased property or, if lower, the present value of minimum lease payments at the inception of the contract and a liability is recognised at the same time and for the same amount.

The Treasury does not currently hold any assets under finance lease.

	2017	2016
	$'000	$'000
Note 1.1C: Grants		
Public sector:		
Australian Government entities - other	**-**	198
Private sector:		
Non-profit organisations	**1,245**	2,727
Total grants	**1,245**	2,925
Note 1.1D: Losses from asset sales		
Property, plant and equipment		
Proceeds from sale	**-**	(18)
Carrying value of asset sold	**-**	42
Selling expense	**-**	11
Total losses from asset sales	**-**	35

1.2 Own-Source Revenue and Gains

Own-Source Revenue	2017 $'000	2016 $'000
Note 1.2A: Rendering of services		
Rendering of services	**9,419**	9,447
Total rendering of services	**9,419**	9,447

Accounting Policy

Revenue from rendering of services

Revenue from 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 stage of completion of contracts at the reporting date is determined by reference to the proportion that costs incurred to date bear to the estimated total costs of the transaction.

Receivables for goods and services, which have 30 day terms, are recognised at the nominal amounts due less any impairment allowance account. Collectability of debts is reviewed at balance date. Allowances are made when collectability of the debt is no longer probable.

	2017 $'000	2016 $'000
Note 1.2B: Other revenue		
Legislative and Governance Forum on Consumer Affairs contributions received	**364**	629
ANAO audit services received free of charge	**575**	575
Other	**134**	143
Total other revenue	**1,073**	1,347
Note 1.2C: Gains from sale of assets		
Plant and equipment		
Proceeds from sale	**88**	-
Net book value of assets disposed	**(38)**	-
Selling expense	**(7)**	-
Total gains from sale of assets	**43**	-
Note 1.2D: Other gains		
Resources received free of charge	**3,272**	3,558
Other	**-**	448
Total other gains	**3,272**	4,006

Accounting Policy

Resources received free of charge

Resources received free of charge are recognised and recorded as revenue depending on their nature when, and only when, a fair value can be reliably determined and the services would have been purchased if they had not been donated. Use of those resources is recognised as an expense.

Contributions of assets at no cost of acquisition or for nominal consideration are recognised as gains at their fair value when the asset qualifies for recognition, unless received from another government agency or authority as a consequence of a restructuring of administrative arrangements.

Sale of assets

Gains from disposal of assets are recognised when control of the asset has passed to the buyer.

	2017 $'000	2016 $'000
Note 1.2E: Revenue from Government		
Appropriations		
Departmental appropriations	**170,496**	160,109
Total revenue from Government	**170,496**	160,109

Accounting Policy

Revenue from Government

Amounts appropriated for departmental appropriations for the year (adjusted for any formal additions and reductions) are recognised as Revenue from Government when Treasury gains control of the appropriation, except for certain amounts that relate to activities that are reciprocal in nature, in which case revenue is recognised only when it has been earned.

Appropriations receivable are recognised at their nominal amounts.

2. Departmental Financial Position

This section analyses the Treasury assets used to generate financial performance and the operating liabilities incurred as a result.

Employee related information is disclosed in the People and Relationships section.

2.1 Financial Assets

	2017 $'000	2016 $'000
Note 2.1A: Cash and cash equivalents		
Special accounts[1]	-	90
Cash on hand or on deposit	**1,250**	2,686
Total cash and cash equivalents	**1,250**	2,776

1. The Actuarial Services Special Account was sunset on 1 October 2016.

	2017 $'000	2016 $'000
Note 2.1B: Trade and other receivables		
Appropriations receivable	**51,526**	47,254
Goods and services receivables	**4,091**	2,500
Net GST receivable from the ATO	**902**	691
Total trade and other receivables (net)	**56,519**	50,445
All receivables are current assets		
Receivables (net) are aged as follows:		
Not overdue	**54,927**	48,344
Overdue by		
0 to 30 days	**373**	1,833
31 to 60 days	**447**	90
61 to 90 days	**772**	56
More than 90 days	-	122
Total trade and other receivables (net)	**56,519**	50,445

Credit terms for goods and services were within 30 days (2016:30 days).

Accounting Policy

Loans and receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest methods less impairment. Interest is recognised by applying the effective interest rate. Collectability of debts is reviewed regularly throughout the year and at balance date. Provisions are made when collection of the debt is judged to be less rather than more likely. Credit terms are net 30 days (2016: 30 days).

Impairment of financial assets

Financial assets are assessed for impairment at the end of each reporting period. No indicators of impairment were identified for assets as at 30 June 2017.

2.2 Non-Financial Assets

Note 2.2A: Reconciliation of the opening and closing balances of property, plant and equipment and computer software (2016-17)

	Buildings–leasehold improvements $'000	Plant and equipment $'000	Computer software internally developed $'000	Computer software purchased $'000	Total $'000
As at 1 July 2016					
Gross book value	**14,280**	**15,000**	**13,497**	**10,756**	**53,533**
Accumulated depreciation / amortisation and impairment	**-**	**(5,373)**	**(8,686)**	**(5,837)**	**(19,896)**
Total value as at 1 July 2016	**14,280**	**9,627**	**4,811**	**4,919**	**33,637**
Additions	**2,838**	**2,548**	**3,660**	**1,650**	**10,696**
Revaluations recognised in other comprehensive income	**1,398**	**(1,020)**	**-**	**-**	**378**
Depreciation and amortisation	**(2,269)**	**(3,153)**	**(2,368)**	**(2,570)**	**(10,360)**
Disposals	**(55)**	**(217)**	**-**	**(298)**	**(570)**
From asset sales (net book value of assets disposed)	-	(38)	-	-	(38)
From write-down and impairment of assets	(55)	(179)	-	(298)	(532)
Other movements	**(33)**	**66**	**(1)**	**1**	**33**
Total as at 30 June 2017	**16,159**	**7,851**	**6,102**	**3,702**	**33,814**
Total as at 30 June 2017 represented by:					
Under construction	**427**	**-**	**2,220**	**-**	**2,647**
Fair value	**15,732**	**7,851**	**-**	**-**	**23,583**
Internally developed - in use	**-**	**-**	**14,935**	**-**	**14,935**
Purchased	**-**	**-**	**-**	**11,425**	**11,425**
Accumulated depreciation / amortisation and impairment	**-**	**-**	**(11,053)**	**(7,723)**	**(18,776)**
Total as at 30 June 2017	**16,159**	**7,851**	**6,102**	**3,702**	**33,814**

No indicators of impairment were found for land and buildings, plant and equipment or intangibles (comprising both internally developed and purchased computer software).

No significant non-financial assets are expected to be sold or disposed within the next 12 months.

All revaluations are independent and are conducted in accordance with the revaluation policy stated at Note 7.4.

The fair value of land and buildings, and property, plant and equipment has been taken to be the market value of similar properties or depreciated replacement value as determined by an independent valuer.

Contractual commitments[1] for the acquisition of property, plant and equipment and intangible assets

Commitments are payable as follows:	2017	2016
	$'000	$'000
Within 1 year	2,353	3,060
Between 1 to 5 years	698	314
Total commitments	**3,051**	3,374

1. Commitments are GST inclusive where relevant.

Accounting Policy

Acquisition of assets

Assets are recorded at cost on acquisition except as stated below. The cost of acquisition includes the fair value of assets transferred in exchange and liabilities undertaken. Financial assets are initially measured at their fair value plus transaction costs where appropriate.

Assets acquired at no cost, or for nominal consideration, are initially recognised as assets and income at their fair value at the date of acquisition, unless acquired as a consequence of restructuring of administrative arrangements. In the latter case, assets are initially recognised as contributions by owners at the amounts at which they were recognised in the transferor's accounts immediately prior to the restructuring.

Asset recognition threshold

Purchases of building – leasehold improvements and computer software purchased are recognised initially at cost in the balance sheet, except for purchases costing less than $5,000 which are expensed in the year of acquisition (other than where they form part of a group of similar items which are significant in total).

The initial cost of an asset includes an estimate of the cost of dismantling and removing the item and restoring the site on which it is located. This is particularly relevant to restoration provisions in property leases taken up by the Treasury where there exists an obligation to restore the property to its original condition. These costs are included in the value of the Treasury's leasehold improvements with a corresponding provision for the restoration recognised.

Revaluations

Following initial recognition at cost, buildings – leasehold improvements and plant and equipment are carried at fair value less subsequent accumulated depreciation and accumulated impairment losses. Valuations are conducted with sufficient frequency to ensure that the carrying amounts of assets do not differ materially from the assets' fair values as at the reporting date. The regularity of independent valuations depends upon the volatility of movements in market values for the relevant assets. The most recent full revaluation was conducted by Australian Valuation Solutions Pty Limited at 30 June 2017.

Revaluation adjustments are made on a class basis. Any revaluation increment is credited to equity under the heading of asset revaluation reserve except to the extent that it reverses a previous revaluation decrement of the same class that was previously recognised in the surplus/deficit. Revaluation decrements for a class of assets are recognised directly in the surplus/deficit except to the extent that they reverse a previous revaluation increment for that class.

Any accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the asset is restated to the revalued amount.

Depreciation and Amortisation

Depreciable property, plant and equipment assets are writtenoff to their estimated residual values over their estimated useful lives to the Treasury using, in all cases, the straightline method of depreciation. Depreciation rates (useful lives), residual values and methods are reviewed at each reporting date and necessary adjustments are recognised in the current, or current and future reporting periods, as appropriate. Software is amortised on a straight-line basis.

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

	2017	2016
Buildings - leasehold improvements	1.75-25 years	1.75 -25 years
Plant and equipment:		
Plant and equipment	3-10 years	3-10 years
Motor vehicles	4 years	4 years
Office equipment	5 years	5 years
Computer software	3-5 years	3-5 years

Impairment

All assets were assessed for impairment at 30 June 2017. 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. No indicators of impairment were found for departmental non-financial assets as at 30 June 2017(2016: nil).

The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. Value in use is the present value of the future cash flows expected to be derived from the asset. Where the future economic benefit of an asset is not primarily dependent on the asset's ability to generate future cash flows and the asset would be replaced if the Treasury were deprived of the asset, its value in use is taken to be its depreciated replacement cost.

Derecognition

An item or property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

Intangibles

The Treasury's intangible assets comprise internally developed and purchased software for internal use. These assets are carried at cost less accumulated amortisation and any accumulated impairment losses.

All software assets were assessed for indications of impairment as at 30 June 2017. No indicators of impairment were identified as at 30 June 2017 (2016: nil).

Accounting Judgement and Estimates

The fair value of buildings – leasehold improvements and plant and equipment has taken to be the market value of similar properties or depreciated replacement value as determined by an independent valuer.

	2017	2016
	$'000	$'000
Note 2.2B: Prepayments		
Prepayments	**5,631**	4,888
Total other non-financial assets	**5,631**	4,888
Prepayments		
No more than 12 months	**3,583**	3,171
More than 12 months	**2,048**	1,717
Total prepayments	**5,631**	4,888

No indicators of impairment were found for other non-financial assets.

2.3 Payables

	2017 $'000	2016 $'000
Note 2.3A: Suppliers		
Trade creditors and accruals	**10,127**	3,250
Total suppliers	**10,127**	3,250
Suppliers expected to be settled		
No more than 12 months	**10,127**	3,250
Total suppliers	**10,127**	3,250

Settlement was usually made within 30 days.

	2017 $'000	2016 $'000
Note 2.3B: Other payables		
Salaries and wages	**722**	322
Superannuation	**131**	62
Separations and redundancies	**-**	212
Other creditors	**(147)**	(28)
Unearned income	**1,777**	2,428
Total other payables	**2,483**	2,996

Other payables are expected to be settled in no more than 12 months.

Accrued expenses have been reclassified from other payables in 2015-16 to suppliers in 2016-17.

Accounting Policy

Financial liabilities

Other financial liabilities include trade creditors and accruals are recognised at amortised cost. Liabilities are recognised to the extent that the goods or services have been received (and irrespective of having been invoiced). Settlement is usually made net 30 days.

2.4 Other Provisions

	Provision for restoration $'000	Total $'000
Carrying amount 1 July 2016	**3,279**	**3,279**
Additional provisions made	**150**	**150**
Unwinding of discount or change in discount rate	**11**	**11**
Closing balance 30 June 2017	**3,440**	**3,440**

	2017 $'000	2016 $'000
Provision for restoration expected to be settled		
No more than 12 months	**388**	139
More than 12 months	**3,052**	3,140
Total provisions for restoration	**3,440**	3,279

The Department has five (2016: five) lease agreements containing provisions to restore the premises to their original condition at the conclusion of the lease. The Department has made a provision to reflect the present value of this obligation. The value of the provision has been estimated by an independent valuer based on occupied floor space as per the leasing agreements.

3. People and relationships

This section describes a range of employment and post-employment benefits provided to our people and our relationships with other key people.

3.1 Employee Provisions

	2017 $'000	2016 $'000
Note 3.1A: Employee provisions		
Leave	**46,506**	46,358
Other employee entitlements	**199**	209
Total employee provisions	**46,705**	46,567
Employee provisions expected to be settled		
No more than 12 months	**9,450**	13,308
More than 12 months	**37,255**	33,259
Total employee provisions	**46,705**	46,567

Accounting Policy

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

Other employee benefits are measured as the total net present value of the defined benefit obligation at the end of the reporting period minus the fair value at the end of the reporting period of the plan assets (if any) out of which the obligations are to be settled directly.

Leave

The liability for employee benefits includes provision for annual leave and long service leave.

The leave liabilities are calculated on the basis of employees' remuneration at the estimated salary rates that will be applied at the time the leave is taken, including the Treasury's employer superannuation contribution rates to the extent that the leave is likely to be taken during service rather than paid out on termination.

The liability for both annual and long service leave has been determined by reference to standard parameters provided by the Department of Finance. The estimate of the present value of the liability takes into account attrition rates and pay increases through promotion and general pay increases.

Separation and redundancy

Provision is made for separation and redundancy benefit payments. The department recognises a provision for termination when it has a detailed formal plan for the terminations and has informed those employees affected that it will carry out the terminations.

Superannuation

Staff of the Treasury are members of the Commonwealth Superannuation Scheme (CSS), the Public Sector Superannuation Scheme (PSS), the PSS accumulation plan (PSSap) or other superannuation funds held outside the Australian Government.

The CSS and PSS are defined benefit schemes of the Australian Government. The PSSap is a defined contribution scheme.

The liability for defined benefits is recognised in the financial statements of the Australian Government and is settled by the Australian Government in due course. This liability is reported in the Department of Finance's administered schedules and notes.

The Treasury makes employer contributions to the employee superannuation scheme at rates determined by an actuary to be sufficient to meet the current cost to the Government. The Treasury accounts for the contributions as if they were contributions to defined contribution plans.

The liability for superannuation recognised as at 30 June 2017 represents outstanding contributions.

Accounting Judgement and Estimates

The employee provision has been determined by reference to standard parameters provided by the Department of Finance.

3.2 Key Management Personnel Remuneration

Key management personnel are those having authority and responsibility for planning, directing and controlling the activities, directly or indirectly, of Treasury. Treasury has determined the key management personnel to be the Secretary, Deputy Secretaries and the Chief Operating Officer. Key management personnel remuneration is reported in the table below:

	2017
	$'000
Short-term employee benefits	2,916
Post-employment benefits	428
Other long-term employee benefits	785
Total key executive remuneration expenses[1]	**4,129**

The total number of key management personnel that are included in the above table are 9.

1. The above key management personnel remuneration excludes the remuneration and other benefits of the Treasurer and other Portfolio Ministers. Their remuneration is set by the Remuneration Tribunal and is not paid by the Treasury.

3.3 Related Party Disclosures

Related party relationships:

Treasury is an Australian Government controlled entity. Related parties to Treasury are key management personnel including the Portfolio Minister and Executive, and other Australian Government entities.

Transaction with related parties:

Giving consideration to relationships with related entities, and transactions entered into during the reporting period by Treasury, it has been determined that there are no related party transactions to be separately disclosed.

4. Income and Expenses Administered on Behalf of Government

This section analyses the activities that the Treasury does not control but administers on behalf of the Government. Unless otherwise noted, the accounting policies adopted are consistent with those applied for departmental reporting.

4.1 Administered — Expenses

	2017 $'000	2016 $'000
Note 4.1A: Grants		
Public sector		
State and Territory Governments	**94,137,712**	87,730,649
Payment of COAG receipts from Government agencies	**89,358**	268,887
Grants to international financial institutions	**17,500**	17,500
Private sector		
Grants to private sector	**14,154**	15,357
Total grants	**94,258,724**	88,032,393

Accounting Policy

The Treasury administers a number of grants on behalf of the Government. With the exception of the accounting treatment of payments to State and Territories under Natural Disaster Relief and Recovery Arrangements (NDRRA) detailed below, grant liabilities are recognised to the extent that (i) the services required to be performed by the grantee have been performed or (ii) the grant eligibility criteria have been satisfied, but payments due have not been made.

Grants to States and Territories

Under the Federal Financial Relations Framework, the Treasurer is responsible for payments to the States and Territories, including general revenue assistance (GST and other general revenue), National Specific Purpose Payments (National SPPs), National Health Reform Funding (NHRF) and National Partnership (NP) payments. Portfolio Ministers are accountable for government policies associated with NP payments. An overview of these arrangements is available on the Council for Federal Financial Relations' website.

There are four main types of payments under the framework:

- General revenue assistance, including GST revenue payments – a financial contribution to a State or Territory which is available for use for any purpose.
- National SPPs – a financial contribution to support a State or Territory to deliver services in a particular sector.
- · NHRF payments – a financial contribution to State or Territory to improve health outcomes for all Australians and ensure the sustainability of Australia health system.
- NP payments – a financial contribution in respect of a NP agreement with a State or Territory to support the delivery of specific projects, to facilitate reforms or to reward jurisdictions that deliver on national reforms or achieve service delivery improvements.

National SPPs and GST are paid under a special appropriation in the *Federal Financial Relations Act 2009*. After the end of the financial year, the Treasurer determines the amounts that should have been paid and an adjustment is made in respect of advances that were paid during the financial year.

NHRF payments are paid under the *Federal Financial Relations Act 2009* which allows the Treasurer to make one annual payment determination. Payments to the States and Territories are made on the condition that the financial assistance is spent in accordance with the National Health Reform Agreement.

NP and other general revenue assistance payments are paid under the *Federal Financial Relations Act 2009* which allows the Treasurer to determine an amount to be paid to a State or Territory for the purpose of making a grant of financial assistance. Once determined, this amount must be credited to the COAG Reform Fund and the Treasurer must ensure that, as soon as practicable after the amount is credited, the COAG Reform Fund is debited for the purposes of making the grant. In addition, the Treasurer must have regard to the Intergovernmental Agreement on Federal Financial Relations.

The Treasury is primarily reliant on certified payment advice from the Chief Financial Officers of Commonwealth agencies, who have policy and program responsibility to assure that the terms and conditions of the NP have been met prior to making a payment. The Treasury then advises the Treasurer on amounts to be determined.

Natural Disaster Relief and Recovery Arrangements

The Treasury accounts for payments made to States and Territories under NDRRA by recognising a liability equal to the discounted value of estimated future payments to States and Territories regardless of whether or not a State or Territory has completed eligible disaster reconstruction work or submitted an eligible claim to the Commonwealth. States and Territories were requested to provide to the Attorney-General's Department (AGD) an estimate of costs expected to be incurred for disasters affecting States and Territories that occurred prior to 1 July 2017 which would be eligible for assistance. The signed representations from the States and Territories are quality assured by AGD, which in turn provides a certification of the expenditure estimates to the Treasury.

Payments to the States and Territories through the COAG special account

COAG receipts are received from other government agencies for the following payments:

- Department of Social Services – Commonwealth's share of the wage increases arising from Fair Work Australia's decision on 1 February 2012 to grant an Equal Remuneration Order in the Social and Community Services sector.
- Department of Infrastructure and Regional Development – distribution of interstate road transport fees to the States and Territories for the maintenance and upkeep of roads.
- Department of Infrastructure and Regional Development – Building Australia Fund infrastructure projects.
- Department of Health – Health and Hospitals Fund infrastructure projects.

The Treasury receives funds from the relevant portfolio agency and pays the amount to the States and Territories. These amounts are recorded as 'COAG receipts from Government Agencies' to recognise the income and a corresponding grant expense for the payment to the States and Territories.

Mirror taxes collected by State Governments

On behalf of the States, the Government imposes mirror taxes which replace State taxes that may be constitutionally invalid in relation to Government places. Mirror taxes are collected and retained by the States, under the *Commonwealth Places (Mirror Taxes) Act 1998*. State Governments bear the administration costs of collecting mirror taxes.

	2017	2016
	$'000	$'000
Note 4.1B: Net foreign exchange losses		
IMF SDR allocation	**(221,087)**	-
IMF Maintenance of Value	**(112,929)**	-
IMF quota revaluation	**471,293**	-
IFIs revaluation	**47,895**	-
IMF new arrangement to borrow loans revaluation	**28,070**	-
Other	**(2,068)**	-
Total net foreign exchange losses[1]	**211,174**	-

1. Refer to Note 4.2F for the comparative year figures.

4.2 Administered — Income

Revenue	2017 $'000	2016 $'000
Non-Taxation Revenue		
Note 4.2A: Sale of goods and rendering of services		
GST administration fees - external entities	**682,391**	672,192
Guarantee Scheme for Large Deposits and Wholesale Funding fee	**-**	50
Guarantee of State and Territory borrowing fee	**13,825**	18,199
Total sale of goods and rendering of services	**696,216**	690,441
Note 4.2B: Interest		
Gross IMF remuneration	**28**	253
Less: burden sharing	**-**	(27)
Net IMF remuneration	**28**	226
Interest on loan to IMF under New arrangements to borrow	**1,300**	418
Interest on loans to States and Territories	**2,126**	2,036
Total interest	**3,454**	2,680
Note 4.2C: Dividends		
Reserve Bank of Australia	**1,286,000**	3,221,746
Australian Reinsurance Pool Corporation	**57,500**	57,500
Total dividends	**1,343,500**	3,279,246
Note 4.2D: COAG revenue from Government agencies		
Building Australia Fund revenue	**-**	6,920
Health and Hospital Fund revenue	**-**	46,891
Interstate road transport revenue	**67,601**	70,357
Social and Community Services Sector Special Account	**21,757**	144,719
Total COAG receipts from government agencies	**89,358**	268,887
Note 4.2E: Other revenue		
HIH Group liquidation proceeds	**2,456**	16,362
Australian Reinsurance Pool Corporation Fee	**90,000**	55,000
Other revenue	**6,685**	5,242
Total other revenue	**99,141**	76,604
Gains		
Note 4.2F: Net Foreign exchange gains		
IMF SDR allocation	**-**	(162,014)
IMF Maintenance of Value	**-**	167,533
IMF quota revaluation	**-**	(29,252)
IFIs revaluation	**-**	18,960
IMF new arrangement to borrow loans revaluation	**-**	23,487
Other	**-**	(1,978)
Total foreign exchange gains[1]	**-**	16,736

1. Refer to Note 4.1B for current year figures.

Accounting Policy

Administered revenue

All administered revenue relate to ordinary activities performed by the Treasury on behalf of the Australian Government. As such, administered appropriations are not revenue of the individual entity that oversees distribution or expenditure of the funds as directed.

Reserve Bank of Australia dividend

The Treasurer is able to determine what portion of the Reserve Bank of Australia's earnings is made available as a dividend to the Commonwealth having regard to the Reserve Bank Board's advice and in accordance with section 30 of the *Reserve Bank Act 1959*.

The Treasury recognise the dividend revenue and a corresponding receivable in the year the RBA reports a net profit available to the Commonwealth, subject to reliable measurement. This does not affect the timing of the dividend receipt in the Cash Flow Statement, only the timing of the accrued revenue in the Statement of Comprehensive Income. Dividends are measured at nominal amounts.

Australian Reinsurance Pool Corporation dividend and fee

The dividend and fee from the Australian Reinsurance Pool Corporation (ARPC) are recognised when the relevant Minister signs the legislative instrument, and thus control of the income stream is established. These are measured at nominal amounts.

International Monetary Fund remuneration

Remuneration is interest paid by the International Monetary Fund (IMF) to Australia for the use of its funds. It is paid a portion of Australia's IMF capital subscription (quota) and on money lent by Australia under the IMF's Financial Transaction Plan, under which members in a strong external position provide quota resources to support IMF lending to borrowing member countries.

Where the IMF's holdings of Australian dollars fall below a specified level, it pays remuneration on Australia's average remunerated reserve tranche position. The rate of remuneration is based on the SDR interest rate. The SDR interest rate is the market interest rate computed by the IMF for the purposes of paying interest on holdings of SDRs, which is based on a weighted average of 3 month bond rates of the five entities whose currencies make up the SDR basket: the United States, United Kingdom, European Union, Japan and China. This rate is then adjusted to account for the financial consequences of overdue obligations to the IMF which are shared between members and reflected at Note 4.2B as 'burden sharing'.

Remuneration is calculated and paid at the end of the IMF's financial quarters. An annual Maintenance of Value adjustment is made to the IMF's holdings of Australia's quota paid in Australian dollars to maintain its value in SDR terms.

International Monetary Fund New Arrangement to Borrow (NAB)

Australia also receives interest on amounts lent to the IMF under the New Arrangements to Borrow (NAB). Amounts lent to the IMF under the NAB accrue interest daily at the IMF's SDR interest rate (or such other rate as agreed by 85 per cent of NAB participants). The IMF pays interest on NAB amounts quarterly.

The IMF must repay amounts lent through the NAB five years after each call is made. Amounts can be repaid earlier at the IMF's discretion.

The Guarantee of State and Territory Borrowing

Under the Guarantee of State and Territory Borrowing, a fee is paid to provide the guarantee over new and nominated existing State and Territory securities. Fees are reported as a fee for service in accordance with AASB 118 *Revenue*. The guarantee closed to new issuances of guaranteed liabilities on 31 December 2010.

Financial Guarantee Contracts

Financial guarantee contracts are accounted for in accordance with AASB 139 *Financial Instruments: Recognition and Measurement*. They are not treated as contingent liabilities, as they are regarded as financial instruments outside the scope of AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*. The Treasury's administered financial guarantee contracts relate to components of the Guarantee of State and Territory Borrowing.

5. Assets and Liabilities Administered on Behalf of Government

This section analyses assets used to conduct operations and the operating liabilities incurred as a result, which the Treasury does not control but administers on behalf of the Government. Unless otherwise noted, the accounting policies adopted are consistent with those applied for departmental reporting.

5.1 Administered — Financial Assets

	2017 $'000	2016 $'000
Note 5.1A: Loans and Other Receivables		
Loans		
Loans to States and Territories	**47,855**	46,269
IMF new arrangements to borrow loan	**684,197**	737,805
Total loans	**732,052**	784,074
Other receivables		
Guarantee of State and Territory		
Borrowing contractual fee receivable[1]	**26,455**	47,872
Guarantee of State and Territory		
Borrowing fee receivable	**992**	1,374
Net GST receivable from the ATO	**120**	172
IMF related moneys owing	**28**	-
Dividends receivable	**1,286,000**	3,221,819
Other receivables	**13,847**	113,064
Total other receivables	**1,327,323**	3,384,301
Total loans and other receivables (gross)	**2,059,375**	4,168,375
Receivables are expected to be recovered in		
No more than 12 months	**1,363,624**	3,380,651
More than 12 months	**695,751**	787,724
Total receivables (gross)	**2,059,375**	4,168,375
Receivables (gross) are aged as follows		
Not overdue	**2,059,375**	4,168,375
Total receivables (gross)	**2,059,375**	4,168,375

1. Refer to Note 5.2C for corresponding liability.

Accounting Policy

Refer to Note 7.3 (Administered Financial Instruments) for details on accounting treatment.

	2017 $'000	2016 $'000
Note 5.1B: Investments		
International financial institutions		
Asian Development Bank	**555,361**	577,387
Asian Infrastructure & Investment Bank	**383,879**	198,815
European Bank for Reconstruction and Development	**93,016**	93,447
International Bank for Reconstruction and Development	**303,370**	314,236
International Finance Corporation	**61,530**	63,734
Multilateral Investment Guarantee Agency	**8,062**	8,350
Total international financial institutions	**1,405,218**	1,255,969
Australian Government entities		
Reserve Bank of Australia	**21,469,000**	23,592,000
Australian Reinsurance Pool Corporation	**455,826**	503,677
Total Australian Government entities	**21,924,826**	24,095,677
Other Investments		
IMF quota	**11,882,842**	12,354,135
Total other investments	**11,882,842**	12,354,135
Total Investments	**35,212,886**	37,705,781
Investments are expected to be recovered in more than 12 months.		

Administered investments

Development banks

Investments in development banks are classified as 'monetary — available for sale financial assets' refer Note 7.3. As such, the foreign currency value of investments is translated into Australian dollars (AUD) using relevant foreign currency exchange rates at balance date.

Australia holds shares in the World Bank Group (WBG), the Asian Development Bank (ADB), the European Bank for Reconstruction and Development (EBRD) and the Asian Infrastructure Investment Bank (AIIB).

Principal activities:

The WBG was established in 1944 and comprises the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA). The World Bank, alongside the International Finance Corporation (IFC), the Multilateral Investment Guarantee Agency (MIGA) and the International Centre for Settlement of Investment Disputes (ICSID), form the World Bank Group.

The IBRD provides financing and technical assistance to middle income countries and creditworthy poor countries. The IDA provides grants, concessional finance and technical assistance to low income countries. The IFC supports the development of the private sector by providing direct finance to private sector operations. MIGA provides guarantee services for projects, which reduce the risks for other co-financing partners including the private sector. ICSID provides international facilities for conciliation and arbitration of investment disputes.

The ADB was established in 1966 and has a mandate to reduce poverty and promote economic development in its developing member countries in Asia and the Pacific. The ADB does this by financing (through a mix of loans, grants, guarantees and co-financing activities with both other donors and the private sector) public sector and private sector activities. It also provides technical assistance to developing member countries so they can improve their policy and business investment environments. A significant portion of the ADB's activities are focused on the infrastructure, transportation and energy sectors.

The EBRD was established in 1991 to assist former communist eastern European countries committed to the principles of multi-party democracy, pluralism and market economies, to develop their private sector and capital markets. The EBRD currently operates in more than 30 countries from Central and Eastern Europe to Central Asia and the Southern and Eastern Mediterranean region. It provides project financing for banks, industries and businesses, both new ventures and investments in existing companies. It also works with publicly owned companies, to support privatisation, restructuring state owned firms and improvement of municipal services.

The AIIB was established on 25 December 2015. The AIIB focuses on the development of infrastructure and other productive sectors in Asia. The AIIB also aims to promote interconnectivity and economic integration in the region by working in close collaboration with other multilateral and bilateral development institutions.

International Monetary Fund

The IMF is an organisation with 189 member countries, working to ensure the stability of the international monetary system - the system of exchange rates and international payments that enables countries (and their citizens) to transact with each other. The IMF does this through: surveillance, including annual economic assessments of member countries; technical assistance to member countries; and by making resources available (with adequate safeguards) to members experiencing balance of payments difficulties.

Quota subscriptions which are denominated in SDR's represent a member's shareholding in the IMF and generate most of the IMF's financial resources.

Australian Government entities

Administered investments in controlled corporate entities are not consolidated because their consolidation is relevant only at the whole of government level.

The Australian Government's investment in controlled corporate entities and companies in the Treasury portfolio are measured at their fair value as at 30 June 2017. Fair value has been taken to be the net assets of the entities, adjusted for the discount of employee benefit obligations with reference to the yield on Australian Government bonds for the Reserve Bank of Australia, as at balance date. These entities are listed below:

Reserve Bank of Australia

The Reserve Bank of Australia is Australia's central bank. Its duty is to contribute to the maintenance of price stability, full employment, and the economic prosperity and welfare of the Australian people. It does this by setting the cash rate to meet a medium-term inflation target, working to maintain a strong financial system and efficient payments system, and issuing the nation's banknotes. The Bank provides selected banking services to the Australian Government and its agencies, and to a number of overseas central banks and official institutions. Additionally, it manages Australia's gold and foreign exchange reserves.

Australian Reinsurance Pool Corporation

ARPC is a Commonwealth public financial corporation established by the Terrorism Insurance Act 2003 to administer the terrorism reinsurance scheme, providing primary insurers with reinsurance for commercial property and associated business interruption losses arising from a declared terrorist incident.

Impairment of administered investments

Administered investments were assessed for impairment at 30 June 2017. No indicators of impairment were identified (2016: nil).

5.2 Administered — Payables

	2017 $'000	2016 $'000
Note 5.2A: Grants		
Public sector		
COAG grants payable	**793,507**	186,830
Other grants payable	**150**	223
Total grants	**793,657**	187,053

Grants are expected to be settled in no more than 12 months.

	2017 $'000	2016 $'000
Note 5.2B: Other payables		
GST appropriation payable	**-**	172
IMF SDR allocation	**5,574,346**	5,795,434
IMF related monies owing	**5,221**	492
Total other payables	**5,579,567**	5,796,098
Other payables expected to be settled		
No more than 12 months	**5,221**	664
More than 12 months	**5,574,346**	5,795,434
Total other payables	**5,579,567**	5,796,098
Note 5.2C: Unearned income		
Guarantee of State and Territory borrowing contractual guarantee service obligation[1]	**26,455**	47,872
Total unearned income	**26,455**	47,872
Total unearned income expected to be settled		
No more than 12 months	**10,505**	14,823
More than 12 months	**15,950**	33,049
Total unearned income	**26,455**	47,872

1. Refer Note 5.1A for corresponding receivable.

IMF Special Drawing Right Allocation

The SDR allocation liability reflects the current value in AUD of the Treasury's liability to repay to the IMF the cumulative allocations of SDRs provided to Australia since joining the IMF. This liability is classified as 'other payables'.

5.3 Administered — Interest Bearing Liabilities

	2017 $'000	2016 $'000
Note 5.3A: Promissory notes		
IMF promissory notes[1]	**9,494,540**	9,494,540
Other promissory notes[1]	**132,324**	156,609
Total promissory notes	**9,626,864**	9,651,149
Loans expected to be settled		
Within 1 year	**24,359**	22,218
Between 1 to 5 years	**50,233**	74,591
More than 5 years	**9,552,272**	9,554,340
Total promissory notes	**9,626,864**	9,651,149

1. Promissory notes held by the Treasury are at face value and have no interest rate associated.

Promissory notes

Promissory notes have been issued to the IMF, the International Bank for Reconstruction and Development, the Asian Development Bank and the Multilateral Investment Guarantee Agency.

Where promissory notes have been issued in foreign currencies, they are recorded at their nominal value by translating them at the spot rate at balance date. The promissory notes are non-interest bearing and relate to the undrawn paid-in capital subscriptions.

Foreign currency gains and losses are recognised where applicable.

5.4 Administered — Other Providers

	2017 $'000	2016 $'000
Note 5.4A: Other Provisions		
NDRRA provision	**704,917**	1,725,063
Queensland	**253,679**	1,337,645
New South Wales	**124,252**	112,625
Victoria	**108,118**	117,992
Western Australia	**88,227**	16,587
Northern Territory	**64,474**	68,716
Tasmania	**54,978**	64,834
South Australia	**11,189**	6,664
Total other provisions	**704,917**	1,725,063
Other provisions expected to be settled		
No more than 12 months	**488,949**	1,617,519
More than 12 months	**215,968**	107,544
Total other provisions	**704,917**	1,725,063

	NDRRA provision $'000	Total $'000
As at 1 July 2016	**1,725,063**	**1,725,063**
Additional provisions made	**134,914**	**134,914**
Amounts used	**(1,104,093)**	**(1,104,093)**
Amounts reversed	**(78,181)**	**(78,181)**
Unwinding of discount or change in discount rate	**27,214**	**27,214**
Total as at 30 June 2017	**704,917**	**704,917**

Accounting Judgements and Estimates

Provisions

The Natural Disaster Relief and Recovery Arrangements (NDRRA) liability represents the Treasury's best estimate of payments expected to be made to States and Territories as at balance date.

The estimate is based on information provided by States and Territories to the Attorney General's Department (AGD) the Commonwealth agency responsible for the administration of disaster relief. The estimates provided by States and Territories are based on their assessment of the costs expected to be incurred that would be eligible for assistance under current NDRRA Determination. AGD perform their quality assurance processes in order to assess reasonableness of estimates provided by the States and Territories with regard to estimates eligibility under NDRRA.

The Treasury reviews the quality assured estimates to ensure they are consistent with government decisions and then calculates the provision by discounting the future cashflows. Given the nature of disasters, there is a level of uncertainty in the estimated reconstruction costs at the time of a disaster. This uncertainty decreases as reconstruction efforts progress to completion. Consistent with accounting principles, the Treasury adopts a prudent position at this time to ensure that liabilities are not understated.

Contingent liabilities

The NDRRA provision at 30 June 2017 includes estimated payments for disaster events that occurred prior to 1 July 2017, except for new events that occurred during the 2016-17 financial year for which costs cannot yet be quantified reliably. Included in the NDRRA contingent liability are the estimate costs of the following events:

- Australian Capital Territory wind storm in January 2017;
- Sydney Storms in February 2017;
- Far North Queensland Monsoon Trough in March 2017
- Queensland Tropical Cyclone Debbie in March 2017 (costs are expected to be significant);
- New South Wales North Coast Floods in March 2017; and
- Flooding in the Shire of Wandering in June 2017.

Estimates of all natural disasters are regularly reviewed and revised when new information becomes available.

6. Funding

This section identifies the Treasury funding structure.

6.1 Appropriations

Note 6.1A: Annual Appropriations ('Recoverable GST exclusive')

Annual Appropriations for 2017

	Appropriation Act		*PGPA Act*				
	Annual Appropriation[1]	AFM	Section 74 Receipts	Section 75 Transfers	Total appropriation	Appropriation applied in 2017 (current and prior years)	Variance[1]
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
DEPARTMENTAL							
Ordinary annual services[1]	169,352	-	17,769	-	187,121	(192,212)	(5,091)
Capital Budget[2]	5,298	-	-	-	5,298	(5,298)	-
Other services							
Equity	300	-	-	-	300	(300)	-
Total departmental	174,950	-	17,769	-	192,719	(197,810)	(5,091)
ADMINISTERED							
Ordinary annual services							
Administered items[2]	44,739	-	-	-	44,739	(40,527)	4,212
Payments to Corporate Commonwealth Entities	-	-	-	-	-	-	-
Other services							
Administered assets and liabilities	60,000	-	-	-	60,000	-	60,000
Total administered	104,739	-	-	-	104,739	(40,527)	64,212

1. The difference between the departmental appropriation for ordinary annual services and revenue from Government in the Statement of Comprehensive Income relates to the following:

(a) Tax Integrity (Public Information Campaign) for which $4.2 million has been recognised as revenue in 2016-17 (appropriation to be received in 2017-18); and

(b) The Actuarial Services Special Account was sunset on 1 October 2016. The balance of the special account ($3.1 million) on the sunset date was reappropriated through Appropriation Act No. 1 2016-17. The special account receipts have been recognised in the year in which revenue was recognised.

2. Departmental and Administered Capital Budgets are appropriated through Appropriation Acts (No.1 and 3). They form part of ordinary annual services, and are not separately identified in the Appropriation Acts.

Annual Appropriations 2016

	Appropriation Act		*PGPA Act*				
	Annual Appropriation $'000	AFM $'000	Section 74 $'000	Section 75 $'000	Total appropriation $'000	Appropriation applied in 2016 (current and prior years) $'000	Variance $'000
DEPARTMENTAL							
Ordinary annual services	161,109	-	15,534	(1,000)	175,643	(188,039)	(12,396)
Capital Budget	5,312	-	-	-	5,312	(5,312)	-
Other services							
Equity	1,700	-	-	-	1,700	(1,700)	-
Total departmental	168,121	-	15,534	(1,000)	182,655	(195,051)	(12,396)
ADMINISTERED							
Ordinary annual services							
Administered items	38,124	-	-	-	38,124	(43,833)	(5,709)
Payments to Corporate Commonwealth Entities							-
Other services							
Administered assets and liabilities	-	-	-	-	-	-	-
Total administered	38,124	-	-	-	38,124	(43,833)	(5,709)

Note 6.1B: Unspent Annual Appropriations ('Recoverable GST exclusive')

Authority	2017 $'000	2016 $'000
Departmental		
Appropriation Act (No. 1) 2012-13[1]	**865**	865
Appropriation Act (No. 2) 2012-13[1]	**208**	208
Appropriation Act (No. 1) 2015-16	**-**	44,264
Appropriation Act (No. 3) 2015-16	**-**	1,768
Appropriation Act (No. 1) 2016-17[2]	**47,503**	-
Total departmental	**48,576**	47,105

Authority	2017 $'000	2016 $'000
Administered		
Appropriation Act (No. 1) 2012-13[3]	**2**	2
Appropriation Act (No. 2) 2012-13[3]	**42,705**	42,705
Appropriation Act (No. 2) 2013-14	**47,101**	47,101
Appropriation Act (No. 4) 2013-14	**18**	18
Appropriation Act (No. 3) 2014-15	**-**	308
Appropriation Act (No. 5) 2014-15	**-**	4,510
Appropriation Act (No. 1) 2015-16	**-**	5,280
Appropriation Act (No. 3) 2015-16	**-**	1,400
Appropriation Act (No. 1) 2016-17	**11,581**	-
Appropriation Act (No. 2) 2016-17	**35,000**	-
Appropriation Act (No. 3) 2016-17	**3,502**	-
Supply Act (No.1) 2016-17	**1,258**	-
Supply Act (No.2) 2016-17	**25,000**	-
Total administered	**166,167**	101,324

1. Balances include quarantines relating to the transfer of the Standard Business Reporting function to the Australian Taxation Office, pending the repeal of 2012-13 Appropriations.
2. Cash held amounts (2017: $1.250 million, 2016: $2.686 million) are included in Appropriation Act (No.1) for the relevant year.
3. Balances comprise of quarantined funds totalling $42.707 million pending the repeal of 2012-13 Appropriations.

Note 6.1C: Special Appropriations ('Recoverable GST exclusive')

The following table lists current special appropriations contained in legislation that the Treasury is responsible for administering.

	Appropriation applied	
	2017	2016
Authority	**$'000**	$'000
Asian Development Bank Act 1966	**-**	-
Asian Development Bank (Additional Subscription) Act 2009	**(22,218)**	(28,030)
Asian Infrastructure Investment Bank Act 2015	**(197,142)**	(210,884)
Clean Energy Finance Corporation Act 2012 *(Limited amount; $2 billion in 2015-16)*	**-**	(2,000,000)
Clean Energy Act 2011	**-**	-
Commonwealth Places (Mirror Taxes) Act 1998	**(542,927)**	(513,235)
European Bank for Reconstruction and Development Act 1990	**-**	-
Federal Financial Relations Act 2009	**(81,403,179)**	(78,525,449)
Financial Agreements (Commonwealth Liability) Act 1932	**-**	-
Financial Services Reform Act 2001	**-**	-
Guarantee Scheme for Large Deposits and Wholesale Funding Appropriation Act 2008	**-**	-
International Bank for Reconstruction and Development (General Capital Increase) Act 1989	**-**	-
International Bank for Reconstruction and Development (Share Increase) Act 1988	**-**	-
International Finance Corporation Act 1955	**-**	-
International Finance Institutions (Share Increase) Act 1982	**-**	-
International Finance Institutions (Share Increase) Act 1986	**-**	-
International Monetary Agreements Act 1947	**(10,523)**	(1,697,678)
Multilateral Investment Guarantee Agency Act 1997	**-**	-
Papua New Guinea Loans Guarantee Act 1975	**-**	-
Payment of Tax Receipts (Victoria) Act 1996	**-**	-
Public Governance, Performance and Accountability Act 2013	**(2)**	(307)
States (Works and Housing) Assistance Act 1984	**-**	-
States (Works and Housing) Assistance Act 1988	**-**	-
State Grants Act 1927	**-**	-
Superannuation Industry (Supervision) Act 1993	**-**	-
Terrorism Insurance Act 2003	**-**	-
Total	**(82,175,991)**	(82,975,583)

Note 6.1D: Disclosure by agent in relation to Annual and Special Appropriations (‘Recoverable GST exclusive’)

	Department of Education and Training	**Department of Agriculture and Water Resources**	**Inspector-General of Taxation**
	Payments to the States and Territories: education services	Payments to the States and Territories: Water for the Environment Special Account	Transaction service provider
2017	**$’000**	**$’000**	**$’000**
Total receipts	**18,139,055**	**-**	**6,683**
Total payments	**18,139,055**	**-**	**6,779**

	Department of Education and Training	**Department of Agriculture and Water Resources**	**Inspector-General of Taxation**
	Payments to the States and Territories: education services	Payments to the States and Territories: Water for the Environment Special Account	Transaction service provider
2016	**$’000**	**$’000**	**$’000**
Total receipts	16,698,587	2,574	6,344
Total payments	16,698,587	2,574	6,351

6.2 Special Accounts

Note 6.2A: Special Accounts ('Recoverable GST exclusive')

	Actuarial Services Special Account[1]		Clean Energy Finance Corporation Special Account[2]		Fuel Indexation Special Account[3]		COAG Reform Fund Special Account[4]		Services for Other Entities and Trust Money Special Account[5]	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016
	$'000	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000
Balance brought forward from previous period	**2,835**	2,632	**-**	2,919,000	**-**	-	**-**	-	**-**	-
Increases										
Appropriation for reporting period	**-**	-	**-**	2,000,000	**275,000**	98,000	**12,091,256**	9,037,014	**-**	-
Other receipts	**221**	2,100	**-**	-	**-**	-	**365,253**	366,887	**-**	2,037
Total increases	**221**	2,100	**-**	2,000,000	**275,000**	98,000	**12,456,509**	9,403,901	**-**	2,037
Available for payments	**3,056**	4,732	**-**	4,919,000	**275,000**	98,000	**12,456,509**	9,403,901	**-**	2,037
Decreases										
Departmental										
Payments made to employees	**-**	(1,537)	**-**	-	**-**	-	**-**	-	**-**	-
Payments made to suppliers	**-**	(360)	**-**	-	**-**	-	**-**	-	**-**	-
Transfer to Appropriation Act No. 1 2016-17	**(3,056)**	-	**-**	-	**-**	-	**-**	-	**-**	-
Total departmental	**(3,056)**	(1,897)	**-**	-	**-**	-	**-**	-	**-**	-
Administered										
Payments made to States and Territories	**-**	-	**-**	-	**(275,000)**	-	**(12,456,509)**	(9,403,901)	**-**	-
Payments made to other entities	**-**	-	**-**	-	**-**	-	**-**	-	**-**	(2,037)
Transfers made to other entities	**-**	-	**-**	(4,919,000)	**-**	-	**-**	-	**-**	-
Transfers made to COAG Reform Fund Special Account	**-**	-	**-**	-	**-**	(98,000)	**-**	-	**-**	-
Total administered	**-**	-	**-**	(4,919,000)	**(275,000)**	(98,000)	**(12,456,509)**	(9,403,901)	**-**	(2,037)
Total decreases	**(3,056)**	(1,897)	**-**	(4,919,000)	**(275,000)**	(98,000)	**(12,456,509)**	(9,403,901)	**-**	(2,037)
Total balance carried to the next period	**-**	2,835	**-**	-	**-**	-	**-**	-	**-**	-
Balance represented by										
Cash held in entity bank accounts	**-**	2,835	**-**	-	**-**	-	**-**	-	**-**	-
Cash held in Official Public Account	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-
Total balance carried to the next period	**-**	2,835	**-**	-	**-**	-	**-**	-	**-**	-

1. Legal authority: Initially Financial Management and Accountability Determination 2006/34 – Actuarial Services Special Account Establishment 2006, taken to have been made under subsection 78(1) of the *Public Governance, Performance and Accountability Act 2013*. The Actuarial Services Special Account was sunset on 1 October 2016.

   Purpose: Providing actuarial services and advice.

   Note: Actuarial Services Special Account was established on 1 October 2006. This special account determination was sunset on 1 October 2016.

2. Appropriation: *Public Governance, Performance and Accountability Act 2013*, section 80.

   Establishing instrument: *Clean Energy Finance Corporation Act 2012*, section 5.

   Purpose: To facilitate increased flows of finance into the clean energy sector. The return of capital to the Clean Energy Finance Corporation (CEFC) special account represents the return of surplus money from the CEFC to the Commonwealth.

   Note: The CEFC special account of $4.919 billion was transferred to Department of the Environment and Energy as a result of the restructuring of administrative arrangements on 21 September 2015.

3. Appropriation: *Public Governance, Performance and Accountability Act 2013*, section 80.

   Establishing instrument: *Fuel Indexation (Road Funding) Special Account Act 2015*, subsection 8(1).

   Purpose: To ensure that amounts equal to the net revenue from indexation on customs and excise duties on fuel are transferred to the COAG Reform Fund in order to provide funding to the States and Territories for expenditure in relation to Australian road infrastructure investment.

4. Appropriation: *Public Governance, Performance and Accountability Act 2013*, section 80.

   Establishing instrument: *COAG Reform Fund Act 2008*, section 5.

   Purpose: For the making of grants of financial assistance to the States and Territories.

   Note: The Treasury makes payments to the States and Territories from the COAG Reform Fund special account based on information provided by other Government departments that have policy and program implementation responsibility.

5. Appropriation: *Public Governance, Performance and Accountability Act 2013,* section 80.

   Establishing instrument: Establishment of SOTEM Special Account — Treasury Determination 2012/09.

   Purpose: To disburse amounts held on trust for the benefit of a person other than the Commonwealth or in connection with services performed on or behalf of other governments and bodies.

   Note: Receipt relates to funding received and held on trust for the Global Infrastructure Hub.

6.2. Special Accounts — continued

Financial System Stability Special Account (Administered)

The Treasury's 'Financial System Stability' special account established under section 70E of the *Banking Act 1959* for the making of payments authorised under specified sections of the *Banking Act 1959*, the *Insurance Act 1973* and the *Life Insurance Act 1995* and to meet expenses of administering the special account. For the years ended 30 June 2016 and 30 June 2017 this special account had nil balances and no transactions were credited or debited to the account.

6.3 Net Cash Appropriation Arrangements

	2017	2016
	$'000	$'000
Total comprehensive income/(loss) less depreciation/ amortisation expenses previously funded through revenue appropriations	**3,532**	3,166
Plus: depreciation/amortisation expenses previously funded through revenue appropriation	**(10,360)**	(8,803)
Total comprehensive income/(loss) - as per the Statement of Comprehensive Income	**(6,828)**	(5,637)

1. From 2010-11, the Government introduced net cash appropriation arrangements, where revenue appropriations for depreciation/amortisation expenses ceased. Entities now receive a separate capital budget provided through equity appropriations. Capital budgets are to be appropriated in the period when cash payment for capital expenditure is required.

7. Managing uncertainties

This section analyses how the Treasury manages financial risks within its operating environment.

7.1 Departmental Contingent Assets and Liabilities

Quantifiable Contingencies

Contingent liabilities consist of $106,803 in 2017 (2016: $0). This amount represents an estimate of the Treasury's liability in respect to studies assistance. There were no quantifiable contingent assets in 2017 (2016: $0).

Contingent liabilities and contingent assets

Contingent liabilities and contingent assets are not recognised in the statement of financial position but are reported in the notes. They may arise from uncertainty as to the existence of a liability or asset, or represent an asset or liability in respect of which the amount cannot be reliably measured. Contingent assets are disclosed when settlement is probable but not virtually certain and contingent liabilities are disclosed when the probability of settlement is greater than remote.

7.2 Administered Contingent Assets and Liabilities

Quantifiable administered contingencies

Quantifiable administered contingencies that are not remote are disclosed in the schedule of administered items as quantifiable administered contingencies.

Commitments under expanded IMF New Arrangements to Borrow (NAB)

Australia has made a line of credit available to the International Monetary Fund (IMF) under its New Arrangements to Borrow (NAB) since 1998. This is a contingent loan to help ensure that the IMF has the resources available to maintain stability and support recovery in the global economy. The IMF's 14th General Review of Quotas, which became effective on 26 January 2016, resulted in a doubling of the IMF's quota resources and a corresponding rollback in the size of the NAB facility. The value of Australia's NAB credit arrangement now stands at Special Drawing Rights (SDR, the IMF's unit of account) 2.22 billion (approximately A$4.01 billion at 30 June 2017). On 4 November 2016 the IMF Executive Board agreed to renew the NAB for an additional five year period from November 2017 to November 2022.

The Fund does not publish annual estimates of the amount it expects to call under the NAB facility. However, the last NAB activation period was terminated in February 2016 and the IMF is currently relying predominately on its quota resources to fund new lending (although the NAB can be called upon to fund IMF programs that were approved under previous activations). The IMF did not call on Australia's NAB facility in 2016-17 and, as at the completion of these statements, has not done so in the current year.

IMF Bilateral Loan

In addition to the NAB credit line, as part of a broad international effort to increase the resources available to the IMF, Australia has made available a SDR4.61 billion (approximately A$8.33 billion at 30 June 2017) contingent bilateral loan to the IMF. The contingent loan is on terms consistent with separate bilateral loan and note purchase agreements between the IMF and all contributing countries. It will be drawn upon by the IMF only if needed to supplement the IMF's quota and NAB resources and any loans would be repaid in full with interest. The increase in the IMF's resources will help ensure that it has the capability to address any potential vulnerability facing the global economy. On 19 December 2016, the Treasurer agreed to renew Australia's bilateral loan agreement with the IMF. The renewed agreement extends Australia's existing funding commitment to December 2019, with the possibility of an additional one-year extension with Australia's consent.

International financial institutions — uncalled capital subscriptions

The Australian Government has held an uncalled capital subscription to the International Bank for Reconstruction and Development (IBRD) since 1947. Australia's uncalled capital subscription to the IBRD totals US$3.6 billion (estimated value A$4.7 billion as at 30 June 2017).

The Australian Government has also held an uncalled capital subscription to the European Bank for Reconstruction and Development (EBRD) since 1991. Australia's uncalled capital subscription to the EBRD totals EUR237.5 million (estimated value A$353.0 million as at 30 June 2017).

The Australian Government has further held an uncalled capital subscription to the Asian Development Bank (ADB) since 1966. Australia's uncalled capital subscription to the ADB totals US$7.0 billion (estimated value A$9.2 billion as at 30 June 2017).

The Australian Government has further held an uncalled capital subscription to the Multilateral Investment Guarantee Agency of US$26.5 million (estimated value A$34.4 million as at 30 June 2017).

The Asian Infrastructure Investment Bank (AIIB) was established on 25 December 2015. The Australian Government has subscribed to shares in the AIIB, which includes an uncalled capital subscription. Australia's uncalled capital subscription to the AIIB totals US$3.0 billion (estimated value A$3.8 billion as at 30 June 2017).

None of these international financial institutions have ever drawn on Australia's uncalled capital subscriptions.

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

The Australian Government has agreed to lend up to $160 million to the State Government of New South Wales (NSW) to support the loan facility to top up the James Hardie Asbestos Injuries Compensation Fund. Draw down on the loan is subject to the James Hardie Asbestos Injuries Compensation Fund requiring funds to meet its liabilities and is contingent on NSW meeting a number of conditions under the loan agreement with the Australian Government. The timing and amounts that may be drawn down by NSW cannot be determined accurately. No new loans were provided to the State Government of NSW in respect of the loan facility in 2016-17. (2015-16: nil).

Unquantifiable administered contingencies

Contingent Liabilities

Housing Loans Insurance Corporation (HLIC)

The Australian Government sold HLIC on 12 December 1997 and has assumed all residual contingencies. The contingent liability relates to the HLIC's contracts of mortgage insurance to the time of sale. Any potential economic outflow cannot not be determined accurately given the complexity of any estimation calculation of the economic outflow would be reliant upon numerous unquantifiable variables. Only at the time of the event, can the amount of economic outflow be determined accurately.

Terrorism insurance — Australian Reinsurance Pool Corporation

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

Natural Disaster Relief and Recovery (NDRRA)

The Australian Government provides funding to States and Territories through the Natural Disaster Relief and Recovery Arrangements (NDRRA) to assist with natural disaster relief and recovery costs. A State or Territory may claim NDRRA funding if a natural disaster occurs and State or Territory relief and recovery expenditure of that event meets the requirements set out in the NDRRA Determination. The NDRRA liability represents the Treasury's best estimate of payments expected to be made to States and Territories as at balance date. In the event where a natural disaster has occurred but the associated costs cannot be quantified reliably, the event is disclosed as a contingent liability. For a list of natural disasters that are included in the NDRRA contingent liability, refer to Note 5.4 Administered – Other Provisions. This list includes Tropical Cyclone Debbie, which affected Queensland in March 2017 and is expected to result in significant costs to the Commonwealth under NDRRA.

Contingent Assets

HIH Claims Support Scheme (HCSS)

As an insured creditor in the liquidation of the HIH Group, the Australian Government is entitled to payments arising from the HCSS's position in the Proof of Debt of respective HIH companies. The Treasury has received payments from the HIH Estate during 2016-17; however the timing and amount of future payments are unknown and will depend on the outcome of the estimation process and the completion of the liquidation of the HIH Group.

Burden sharing in the International Monetary Fund remuneration

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

The mechanism works by providing for additions to the rate of charge on IMF loans and deductions to the rate of remuneration for creditor members such as Australia. Resources collected from individual members under the burden sharing mechanism are refundable to them as arrears cases are resolved, or as may be decided by the IMF. Thus, resources collected for unpaid charges are refunded when these charges are eventually settled.

Likewise, precautionary balances held in the Special Contingent Account would be distributed back to members in proportion to their cumulative contributions when there are no overdue charges or principal balances. The IMF could also decide to make an early distribution.

As there is considerable and inherent uncertainty around the timing and amounts of burden sharing to be refunded to Australia this contingent asset cannot be reliably measured and as such is recorded as an unquantifiable contingent asset.

7.3 Administered — Financial Instruments

	2017 $'000	2016 $'000
Note 7.3A: Categories of Financial Instruments		
Financial Assets		
Loans and receivables		
IMF related monies owing	**28**	-
Guarantee of State and Territory Borrowing contractual fee receivable	**26,455**	47,872
Guarantee of State and Territory Borrowing fee receivable	**992**	1,374
IMF new arrangements to borrow loan	**684,197**	737,805
Loans to States and Territories	**47,855**	46,269
Dividends receivable	**1,286,000**	3,221,819
Other receivables	**13,847**	113,064
Total loans and receivables	**2,059,255**	4,168,203
Available-for-sale financial assets		
International financial institutions	**1,405,218**	1,255,969
Australian Government entities	**21,924,826**	24,095,677
IMF Quota	**11,882,842**	12,354,135
Total available-for-sale financial assets	**35,212,886**	37,705,781
Total financial assets	**37,272,141**	41,873,984
Financial Liabilities		
Financial liabilities measured at amortised cost:		
Promissory notes	**9,626,864**	9,651,149
Grant liabilities	**793,657**	187,053
IMF SDR allocation liability	**5,574,346**	5,795,434
Other payables	**5,221**	492
Guarantee of State and Territory Borrowing contractual guarantee service obligation	**26,455**	47,872
Total financial liabilities measured at amortised cost	**16,026,543**	15,682,000
Total financial liabilities	**16,026,543**	15,682,000

Financial Assets

The Treasury classifies its financial instruments as loans and receivables.

The classification depends on the nature and purpose of the financial instrument and is determined at the time of initial recognition. Financial assets are recognised and derecognised upon trade date.

	2017 $'000	2016 $'000
Note 7.3B: Net Gains and Losses on Financial Assets		
Loans and receivables		
Guarantee Scheme for Large Deposits and Wholesale Funding fee	**-**	50
Guarantee of State and Territory Borrowing fee	**13,825**	18,199
Interest revenue	**3,426**	2,454
Exchange gains/(loss)	**(28,070)**	23,487
Net gains/(losses) on loans and receivables	**(10,819)**	44,190
Available for sale		
Interest Revenue	**28**	226
Exchange gains/(loss)	**(406,259)**	157,241
Net gains/(losses) on available for sale assets	**(406,231)**	157,467
Net gains/(losses) on financial assets	**(417,050)**	201,657

1. Minor reclassification in prior year exchange gains / (loss) disclosure amounts between Loans and receivables and Available for sale.

	2017 $'000	2016 $'000
Note 7.3C: Net Gains and Losses on Financial Liabilities		
Financial liabilities measured at amortised cost		
IMF Charges	**15,252**	3,276
Exchange gains/(loss)	**223,155**	(163,992)
Net gains/(losses) on financial liabilities measured at amortised cost	**223,155**	(160,716)
Net gains/(losses) on financial liabilities	**223,155**	(160,716)

Note 7.3D: Credit risk

The maximum exposure to credit risk of the Treasury's administered financial assets is the carrying amount of 'loans and receivables' (2017: $2.1 billion and 2016: $4.2 billion) and the carrying amount of 'available for sale financial assets' (2017: $35.2 billion and 2016: $37.7 billion).

International financial institutions that the Treasury holds its financial assets with have a minimum of AAA credit ratings. The contractual fee receivable arising from the Guarantee of State and Territory Borrowing relates to state and territory governments. These entities hold a minimum of AA credit ratings. Therefore the Treasury does not consider any of its financial assets to be at risk of default.

Note 7.3E: Liquidity risk

The Treasury's administered financial liabilities are promissory notes, grant liabilities and the IMF SDR allocation. The contractual guarantee service obligation arising from the guarantee scheme for State and Territory borrowing is not included as there is no liquidity risk associated with this item. It is contingent on the value of the associated contractual fee receivable. The exposure to liquidity risk is based on the notion that the Treasury will encounter difficulty in meeting its obligations associated with administered financial liabilities. This is highly unlikely due to appropriation funding through special appropriations and nonlapsing capital appropriations as well as internal policies and procedures put in place to ensure there are appropriate resources for the Treasury to meet its financial obligations.
The following tables illustrate the maturities for non-derivative financial liabilities:

Maturities for financial liabilities in 2017

	On demand $'000	**Within 1 year $'000**	**1 to 2 years $'000**	**2 to 5 years $'000**	**> 5 years $'000**	**Total $'000**
Promissory notes	-	**24,359**	**24,765**	**25,469**	**9,552,271**	**9,626,864**
Grant liabilities	-	**793,657**	-	-	-	**793,657**
IMF SDR allocation liabilities	-	-	-	-	**5,574,346**	**5,574,346**
Other payables	**5,221**	-	-	-	-	**5,221**
Total	**5,221**	**818,016**	**24,765**	**25,469**	**15,126,617**	**16,000,088**

Maturities for financial liabilities in 2016

	On demand $'000	Within 1 year $'000	1 to 2 years $'000	2 to 5 years $'000	> 5 years $'000	Total $'000
Promissory notes	-	22,218	24,359	50,232	9,554,340	9,651,149
Grant liabilities	-	187,053	-	-	-	187,053
IMF SDR allocation liabilities	-	-	-	-	5,795,434	5,795,434
Other payables	492	-	-	-	-	492
Total	492	209,271	24,359	50,232	15,349,774	15,634,128

Note 7.3F: Market risk

Foreign currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The Treasury is exposed to foreign exchange currency risk primarily through undertaking certain transactions denominated in foreign currency. The Treasury is exposed to foreign currency denominated in USD, EUR and SDR.The following table details the effect on profit and equity as at 30 June 2017 from a 10.2 per cent (30 June 2016 from a 10.5 per cent) favourable/unfavourable change in AUD against the Treasury with all other variables held constant. The change in the risk variable has been determined by reference to standard parameters provided by the Department of Finance.

Sensitivity analysis of the risk that the entity is exposed to for 2017

			Effect on	
	Risk variable	**Change in risk variable**	**Net cost of services 2017**	**Net assets 2017**
Risk Variable		**%**	**$'000**	**$'000**
IFI Investments	Exchange rate	10.2	**(130,413)**	**(130,413)**
IFI investments	Exchange rate	(10.2)	**160,136**	**160,136**
IMF Remuneration Receivable	Exchange rate	10.2	**(3)**	**(3)**
IMF Remuneration Receivable	Exchange rate	(10.2)	**3**	**3**
IMF new arrangements to borrow loan	Exchange rate	10.2	**(63,498)**	**(63,498)**
IMF new arrangements to borrow loan	Exchange rate	(10.2)	**77,790**	**77,790**
IMF Quota	Exchange rate	10.2	**(1,102,798)**	**(1,102,798)**
IMF Quota	Exchange rate	(10.2)	**1,354,144**	**1,354,144**
Promissory notes	Exchange rate	10.2	**(5,358)**	**(5,358)**
Promissory notes	Exchange rate	(10.2)	**6,579**	**6,579**
IMF SDR allocation liability	Exchange rate	10.2	**(517,333)**	**(517,333)**
IMF SDR allocation liability	Exchange rate	(10.2)	**635,241**	**635,241**
IMF Charges Payable	Exchange rate	10.2	**(485)**	**(485)**
IMF Charges Payable	Exchange rate	(10.2)	**595**	**595**

Sensitivity analysis of the risk that the entity is exposed to for 2016

			Effect on	
	Risk variable	Change in Risk variable	Net cost of services 2016	Net assets 2016
Risk Variable		%	$'000	$'000
IFI Investments	Exchange rate	10.5	(119,346)	(119,346)
IFI investments	Exchange rate	(10.5)	147,348	147,348
IMF Remuneration Receivable	Exchange rate	10.5	-	-
IMF Remuneration Receivable	Exchange rate	(10.5)	-	-
IMF new arrangements to borrow loan	Exchange rate	10.5	(70,108)	(70,108)
IMF new arrangements to borrow loan	Exchange rate	(10.5)	86,558	86,558
IMF Quota	Exchange rate	10.5	(1,173,923)	(1,173,923)
IMF Quota	Exchange rate	(10.5)	1,449,368	1,449,368
Promissory notes	Exchange rate	10.5	(5,682)	(5,682)
Promissory notes	Exchange rate	(10.5)	7,016	7,016
IMF SDR allocation liability	Exchange rate	10.5	(550,697)	(550,697)
IMF SDR allocation liability	Exchange rate	(10.5)	679,911	679,911
IMF Charges Payable	Exchange rate	10.5	(47)	(47)
IMF Charges Payable	Exchange rate	(10.5)	58	58

Administered financial instruments

AASB 139 *Financial Instruments: Recognition and Measurement* requires financial instruments to be classified into one of four categories. The financial instruments specific to the Treasury's administered items are classified in three of the four categories as detailed below.

Loans and receivables (these are nonderivative financial assets with fixed or determinable payments that are not quoted in an active market):

- IMF related monies receivable (measured initially at fair value and then measured at amortised cost using the effective interest rate method);
- Loans to the IMF under the New Arrangements to Borrow (measured initially at fair value and then measured at amortised cost using the effective interest rate method);
- the Guarantee Scheme for Large Deposits and Wholesale Funding contractual fee receivable (measured initially at fair value and then measured at amortised cost using the effective interest rate method);
- the Guarantee Scheme for State and Territory Borrowing contractual fee receivable (measured initially at fair value and then measured at amortised cost using the effective interest rate method);
- Loans to States and Territories (measured initially at fair value and then measured at amortised cost using the effective interest rate method); and
- Dividends receivable (measured at fair value).

Availableforsale financial assets:

- investments in development banks (measured initially at cost or notional cost and then measured at fair value);
- the IMF quota (measured initially at cost or notional cost and then measured at fair value); and
- Investments in Government Entities (measured at fair value based on net asset position of the entity at 30 June 2017).

Financial liabilities:

- the SDR allocation (measured initially at fair value and then measured at amortised cost using the effective interest rate method);
- promissory notes (measured initially at fair value and then measured at amortised cost using the effective interest rate method);
- IMF related monies payable (measured initially at fair value and then measured at amortised cost using the effective interest rate method); and
- the Guarantee Scheme for Large Deposits and Wholesale Funding contractual guarantee service obligation (measured initially at fair value and then measured at amortised cost using the effective interest rate method).

Availableforsale financial assets are those nonderivative financial assets that are designated as available for sale or that are not classified as (a) loans and receivables, (b) heldtomaturity investments or (c) financial assets at fair value through profit or loss.

Although a number of the Treasury's financial instruments are classified as 'availableforsale', the Treasury does not hold these instruments for the purposes of trading. Assets that can be reliably measured at reporting date are valued at fair value, otherwise, at cost.

Promissory notes are financial liabilities that are required to be measured at amortised cost using the effective interest rate method. The contractual terms of the promissory notes are noninterest bearing making the effective interest rate zero. Therefore, the measurement would be the initial value less any repayments plus or minus movements in exchange rates as a result of translation on the balance date.

The Guarantee of State and Territory Borrowing contractual fee receivable represents the requirement under AASB 139 *Financial Instruments: Recognition and Measurement* for the Treasury to recognise upfront, its entitlements under the financial guarantee contract to revenue received or receivable from authorised deposittaking institutions over the contracted guarantee period. Conversely, the Treasury is required to recognise a corresponding initial liability for its contractual obligation to provide a guarantee service over the period covered by each guarantee contract (analogous to unearned income).

Recognition of these amounts only relates to fee revenue aspects of the financial guarantee contracts. These amounts do not reflect any expected liability under the Guarantee Scheme itself as these are considered remote and unquantifiable. Administered contingent liabilities and assets are disclosed at Note 7.2.

7.4 Fair Value Measurement

Note 7.4A: Fair value measurement

	Fair value measurements at the end of the reporting period	
	2017	2016
	$'000	$'000
Non-financial assets[1]		
Property, plant and equipment - AUC[2]	**-**	285
Property, plant and equipment[2]	**6,912**	7,423
Library[2]	**939**	1,919
Land and buildings - AUC[2]	**427**	183
Land and buildings[2]	**15,732**	14,097
Total non-financial assets	**24,010**	23,907

1. The Treasury's assets are held for operational purposes and not held for the purposes of deriving a profit. The current use of all non-financial assets is considered their highest and best use.
2. No non-financial assets were measured at fair value on a non-recurring basis as at 30 June 2017 (2016: nil).

Accounting Policy

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

The Treasury's assets are held to meet out service obligation not for the purposes of deriving a profit. The current use of all NFAs is considered their highest and best use.

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

The Treasury procures the valuation services from an independent valuer of the tangible non-financial asset classes once every three years. Asset carrying amounts are tested for materiality at least once every 12 months. If a particular asset class experiences significant and volatile changes in fair value (i.e. where indicators suggest that the value of the class has changed materially since the previous reporting period), that class is subject to specific valuation in the reporting period, where practicable, regardless of the timing of the last specific valuation. There have been no transfers between level 1 and level 2 of the hierarchy during the year.

An annual assessment is undertaken to determine whether the carrying amount of the assets is materially different from the fair value. Comprehensive valuations are carried out at least once every three years. During 2016-17, Treasury appointed Australian Valuation Solutions Pty Limited (AVS) to undertake a full revaluation of all tangible property, plant and equipment assets as at 30 June 2017. AVS has provided written assurance to the Treasury that the models developed are in compliance with AASB 13.

The methods utilised to determine and substantiate the unobservable inputs are derived and evaluated as follows:

All Asset Classes - Physical Depreciation and Obsolescence.

Assets that do not transact with enough frequency or transparency to develop objective opinions of value from observable market evidence have been measured utilising the Depreciated Replacement Cost approach. Under the Depreciated Replacement Cost approach the estimated cost to replace the asset is calculated and then adjusted to take into physical depreciation and obsolescence. Physical depreciation and obsolescence has been determined based on professional judgement regarding physical, economic and external obsolescence factors relevant to the asset under consideration. For all leasehold improvement assets, the consumed economic benefit / asset obsolescence deduction is determined based on the term of the associated lease.

Library - Replacement cost

The value of the library was determined on the basis of the average cost for items within each collection. The replacement cost has considered purchases over recent years and these have been evaluated for reasonableness against current market prices.

The Treasury's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period. There have been no transfers between level 1 and level 2 of the hierarchy during the year.

7.5 Administered — Fair Value Measurement

The following tables provide an analysis of assets and liabilities that are measured at fair value.

The different levels of the fair value hierarchy are defined below.

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

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

Level 3: Unobservable inputs for the asset or liability.

Note 7.5A: Fair Value Measurements, Valuation Techniques and Inputs Used

Recurring fair value measurements at the end of the reporting period by hierarchy for assets and liabilities in 2017

	Fair value measurements at the end of the reporting period using			
	2017 $'000	2016 $'000	**Category (Level 1, 2 or 3)**	**Valuation technique(s) and inputs used[1,2]**
Financial assets:				
Investment in Australian Government Entities:	**21,924,826**	24,095,677	**3**	**Net assets**
Australian Reinsurance Pool Corporation	***455,826***	503,677		
Reserve Bank of Australia	***21,469,000***	23,592,000		
Investment in International Financial Institutions:	**1,405,218**	13,610,104	**3**	**Value of shares held**
Asian Development Bank	***555,361***	577,387		
Asian Infrastructure and Investment Bank	***383,879***	198,815		
European Bank for Reconstruction and Development	***93,016***	93,447		
International Bank for Reconstruction and Development	***303,370***	314,236		
International Finance Corporation	***61,530***	63,734		
Multilateral Investment Guarantee Agency	***8,062***	8,350		
Other Investments	**11,882,842**	12,354,135	**3**	**Value of quota held**
IMF quota	***11,882,842***	12,354,135		
Total financial assets	**35,212,886**	37,705,781		
Total fair value measurements	**35,212,886**	37,705,781		

1. No change in valuation techniques occurred during the period.
2. Significant observable inputs only.

Fair value measurements

The highest and best use of Treasury's investments in Australian Government entities does not differ because the fair value is based on the net asset position of the entity.

The highest and best use of Treasury's investments in International Financial Institutions does not differ because the fair value is based on the value of shares held in the relevant institution.

Note 7.5B: Level 1 and Level 2 transfers for recurring fair value measurements

No assets were transferred between Level 1 and Level 2.

Note 7.5C: Reconciliation for recurring Level 3 fair value measurements

Recurring Level 3 fair value measurements - reconciliation for assets

	Financial assets			
	Investments		Total	
	2017	2016	**2017**	2016
	$'000	$'000	**$'000**	$'000
As at 1 July	**37,705,781**	32,565,700	**37,705,781**	32,565,700
Total gains/(losses) recognised in other comprehensive income	**(2,170,851)**	(305,232)	**(2,170,851)**	(305,232)
Total gains/(losses) recognised in net cost of services				
IMF Quota foreign exchange gain/(loss)	**(471,293)**	(29,252)	**(471,293)**	(29,252)
International Financial Institutions foreign exchange gain/(loss)	**(47,895)**	18,960	**(47,895)**	18,960
Restructuring[1]	**-**	(1,237,900)	**-**	(1,237,900)
Share Purchases	**-**			
Increase in investments in the International Financial Institutions	**197,144**	6,693,505	**197,144**	6,693,505
IMF general review Quota Payments		-	**-**	-
Total as at 30 June	**35,212,886**	37,705,781	**35,212,886**	37,705,781
Changes in unrealised gains/(losses) recognised in net cost of services for the year ended 30 June	**(2,492,895)**	5,140,081	**(2,492,895)**	5,140,081

1 Refer to Note 8.1 Administered Restructuring note.

8. Other Information

8.1 Administered Restructuring

	2016
	Clean Energy Finance Corporation
	Environment[1]
	$'000
FUNCTIONS RELINQUISHED	
Assets relinquished	
Investments	1,237,900
Total assets relinquished	1,237,900
Net assets/(liabilities) relinquished	1,237,900

1. The administration of the Clean Energy Finance Corporation's enabling legislation was relinquished to the Department of the Environment during 2016 as a result of the restructuring of administrative arrangements on 21 September 2015.

Note: There was no transfer of functions during 2016-17.

9. Budgetary Reports and Explanation of Major Variances

9.1 Departmental Budgetary Reports

Statement of Comprehensive Income
for the period ended 30 June 2017

	Actual	Budget estimate	
		Original[1]	Variance[2]
	2017	2017	2017
	$'000	$'000	$'000
NET COST OF SERVICES			
Expenses			
Employee benefits	123,782	123,910	(128)
Suppliers	55,429	52,305	3,124
Grants	1,245	1,184	61
Depreciation and amortisation	10,360	5,308	5,052
Write-down and impairment of assets	532	-	532
Finance costs	11	-	11
Total expenses	191,359	182,707	8,652
Own-Source Income			
Own-source revenue			
Sale of goods and rendering of services	9,419	9,504	(85)
Other revenues	1,073	1,200	(127)
Total own-source revenue	10,492	10,704	(212)
Gains			
Gains from sale of assets	43	-	43
Other gains	3,272	4,050	(778)
Total gains	3,315	4,050	(735)
Total own-source income	13,807	14,754	(947)
Net cost of services	(177,552)	(167,953)	(9,599)
Revenue from Government	170,496	162,645	7,851
Surplus / (Deficit)	(7,056)	(5,308)	(1,748)
OTHER COMPREHENSIVE INCOME			
Items not subject to subsequent reclassification to net cost of services			
Changes in asset revaluation reserves	228	-	228
Total other comprehensive income	228	-	228
Total comprehensive income/(loss) attributable to the Australian Government	(6,828)	(5,308)	(1,520)

1. The Treasury's original budgeted financial statement that was first presented to Parliament in respect of the reporting period (i.e. from the Treasury's 2016-17 Portfolio Budget Statements (PBS)).
2. Between the actual and original budgeted amounts for 2017. Explanations of major variances (that are greater than +/- 10 per cent of the original budget for a line item and greater than +/- $1 million) are provided below.

Explanations of major variances	Affected line items
Depreciation and amortisation expenses for 2016-17 were $10.4 million, an increase of $5.1 million compared with the original budget. The increase is largely driven by a $6.0 million revaluation increment of leasehold improvements at 30 June 2016 which occurred subsequent to the 2016-17 Budget, resulting in a larger asset base and therefore expense in 2017.	Depreciation and amortisation

Statement of Financial Position
as at 30 June 2017

	Actual	Budget estimate	
		Original[1]	Variance[2]
	2017	2017	2017
	$'000	$'000	$'000
ASSETS			
Financial assets			
Cash and cash equivalents	1,250	1,000	250
Trade and other receivables	56,519	67,293	(10,774)
Total financial assets	57,769	68,293	(10,524)
Non-financial assets			
Land and buildings	16,159	2,149	14,010
Plant and equipment	7,851	7,255	596
Intangibles	9,804	13,612	(3,808)
Prepayments	5,631	3,365	2,266
Total non-financial assets	39,445	26,381	13,064
Total assets	97,214	94,674	2,540
LIABILITIES			
Payables			
Suppliers	10,127	1,289	8,838
Other payables	2,483	11,484	(9,001)
Total payables	12,610	12,773	(163)
Provisions			
Employee provisions	46,705	46,564	141
Provision for restoration	3,440	964	2,476
Total provisions	50,145	47,528	2,617
Total liabilities	62,755	60,301	2,454
Net assets	34,459	34,373	86
EQUITY			
Asset revaluation reserve	12,414	6,163	6,251
Contributed equity	64,136	64,136	-
Retained surplus/(deficit)	(42,091)	(35,926)	(6,165)
Total equity	34,459	34,373	86

1. The Treasury's original budgeted financial statement that was first presented to Parliament in respect of the reporting period (i.e. from the Treasury's 2016-17 Portfolio Budget Statements (PBS)).
2. Between the actual and original budgeted amounts for 2017. Explanations of major variances (that are greater than +/- 10 per cent of the original budget for a line item and greater than +/- $1 million) are provided below.

Explanations of major variances	Affected line items
Trade and other receivables at 30 June 2017 amounted to $56.5 million, a decrease of $10.8 million compared with the original budget. The decrease relates to changes in appropriation receivable which was driven by balance sheet movements from the 2015-16 financial statements which had not been incorporated into the original budget ($10.3 million)	Trade and other receivables
Land and buildings at 30 June 2017 amounted to $16.2 million, an increase of $14.0 million compared with the original budget reflecting the refurbishment of the Treasury Building in 2016-17 and the initial recognition of the restoration provision for the Treasury Building in 2015-16.	Land and buildings
Intangibles at 30 June 2017 amounted to $9.8 million, a decrease of $3.8 million compared with the original budget reflecting the transfer of $3.5 million from intangibles to plant and equipment during 2015-16.	Intangibles
Total prepayments at 30 June 2017 amounted to $5.6 million, an increase of $2.2 million compared with the original budget due to the timing of supplier payments.	Prepayments
Total payables at 30 June 2017 amounted to $12.6 million, a decrease of $0.2 million compared with the original budget due to the timing of employee and supplier payments.	Total payables
Provision for restoration at 30 June 2017 amounted to $3.4 million, an increase of $2.3 million compared with the original budget driven by the recognition of restoration provision for the Treasury Building in 2015-16.	Provision for restoration
Total equity at 30 June 2017 was $34.5 million, an increase of $0.1 million compared with the original budget as a result of the revaluation of non-financial assets (which was not budgeted for) offset by an increase in depreciation and amortisation expenses.	Equity

Cash Flow Statement

for the period ended 30 June 2017

	Actual	Budget estimate Original[1]	Variance[2]
	2017	**2017**	2017
	$'000	**$'000**	$'000
OPERATING ACTIVITIES			
Cash received			
Appropriations	**183,993**	**161,003**	22,990
Sale of goods and rendering of services	**6,304**	**9,504**	(3,200)
GST received from ATO	**4,791**	**-**	4,791
Other	**518**	**1,200**	(682)
Total cash received	**195,606**	**171,707**	23,899
Cash used			
Employees	**123,496**	**122,410**	1,086
Suppliers	**44,544**	**48,113**	(3,569)
Grants	**1,245**	**-**	1,245
Section 74 receipts transferred to OPA	**17,769**	**-**	17,769
GST paid to ATO	**4,920**	**-**	4,920
Other	**-**	**1,184**	(1,184)
Total cash used	**191,974**	**171,707**	20,267
Net cash from/(used by) operating activities	**3,632**	**-**	3,632
INVESTING ACTIVITIES			
Cash received			
Proceeds from sales of plant and equipment	**50**	**-**	50
Total cash received	**50**	**-**	50
Cash used			
Purchase of land and buildings	**2,818**	**-**	2,818
Purchase of plant and equipment	**2,748**	**-**	2,748
Purchase of intangibles	**5,240**	**5,598**	(358)
Total cash used	**10,806**	**5,598**	5,208
Net cash from/(used by) investing activities	**(10,756)**	**(5,598)**	(5,158)
FINANCING ACTIVITIES			
Cash received			
Contributed equity - departmental capital budget	**5,298**	**5,298**	-
Contributed equity - equity injections	**300**	**300**	-
Total cash received	**5,598**	**5,598**	-
Net cash from/(used by) financing activities	**5,598**	**5,598**	-
Net increase/(decrease) in cash held	**(1,526)**	**-**	(1,526)
Cash at the beginning of the reporting period	**2,776**	**1,000**	1,776
Cash at the end of the reporting period	**1,250**	**1,000**	250

1. Treasury's original budgeted financial statement that was first presented to Parliament in respect of the reporting period (i.e. from the Treasury's 2016-17 Portfolio Budget Statements (PBS)).
2. Between the actual and original budgeted amounts for 2017. Explanations of major variances (that are greater than +/- 10 per cent of the original budget for a line item and greater than +/- $1 million) are provided below.

Explanations of major variances	Affected line items
The net change in cash held during 2016-17 was $1.5 million, lower than the balanced position in the original budget. The change was predominantly driven by the drawdown of funds during 2016-17 to meet capital expenditure requirements.	Net increase/(decrease) in cash held

9.2 Administered Budgetary Reports

Statement of Comprehensive Income
for the period ended 30 June 2017

	Actual	Budget estimate	
		Original[1]	Variance[2]
	2017	2017	2017
	$'000	$'000	$'000
NET COST OF SERVICES			
Expenses			
Grants	**94,258,724**	**96,026,210**	(1,767,486)
Interest	**15,252**	**3,038**	12,214
Foreign exchange losses	**211,174**	**-**	211,174
Suppliers	**8,557**	**2,028**	6,529
Total expenses	**94,493,707**	**96,031,276**	(1,537,569)
Income			
Revenue			
Non-taxation revenue			
Sale of goods and rendering of services	**696,216**	**789,338**	(93,122)
Interest	**3,454**	**6,638**	(3,184)
Dividends	**1,343,500**	**200,500**	1,143,000
COAG revenue from government agencies	**89,358**	**622,631**	(533,273)
Other	**99,141**	**4,610**	94,531
Total non-taxation revenue	**2,231,669**	**1,623,717**	607,952
Total revenue	**2,231,669**	**1,623,717**	607,952
Gains			
Foreign exchange	**-**	**7,522**	(7,522)
Total gains	**-**	**7,522**	(7,522)
Total income	**2,231,669**	**1,631,239**	600,430
Net cost of (contribution by) services	**(92,262,038)**	**(94,400,037)**	2,137,999
Surplus/(Deficit)	**(92,262,038)**	**(94,400,037)**	2,137,999
OTHER COMPREHENSIVE INCOME			
Items not subject to subsequent reclassification to net cost of services			
Changes in asset revaluation surplus	**(2,170,851)**	**-**	(2,170,851)
Total comprehensive income	**(2,170,851)**	**-**	(2,170,851)
Total comprehensive income/(loss)	**(94,432,889)**	**(94,400,037)**	(32,852)

1. Treasury's original budgeted financial statement that was first presented to Parliament in respect of the reporting period (i.e. from the Treasury's 2016-17 Portfolio Budget Statements (PBS)).
2. Between the actual and original budgeted amounts for 2017. Explanations of major variances (that are greater than +/- 10 per cent of the original budget for a line item and greater than +/- $1 billion) are provided below.

Explanations of major variances	Affected line items
Dividend revenue for 2016-17 was $1.3 billion, an increase of $1.1 billion compared with the original budget. The increase relates to higher dividend revenue from the Reserve Bank of Australia.	Dividends
Changes in asset revaluation surplus for 2016-17 totalled $1.8 billion. The changes are driven by the movement in the net asset position of the Reserve Bank of Australia.	Changes in assets revaluation surplus

Administered Schedule of Assets and Liabilities
as at 30 June 2017

	Actual	Budget estimate	
		Original[1]	Variance[2]
	2017	2017	2017
	$'000	$'000	$'000
ASSETS			
Financial assets			
Loans and other receivables	**2,059,375**	**1,029,225**	1,030,150
Investments	**35,212,886**	**39,406,559**	(4,193,673)
Total financial assets	**37,272,261**	**40,435,784**	(3,163,523)
Non-financial assets			
Other	**381**	**-**	381
Total non-financial assets	**381**	**-**	381
Total assets administered on behalf of Government	**37,272,642**	**40,435,784**	(3,163,142)
LIABILITIES			
Payables			
Grants	**793,657**	**42,822**	750,835
Other payables	**5,579,567**	**5,676,113**	(96,546)
Unearned income	**26,455**	**36,451**	(9,996)
Total payables	**6,399,679**	**5,755,386**	644,293
Interest bearing liabilities			
Promissory notes	**9,626,864**	**9,474,333**	152,531
Total interest bearing liabilities	**9,626,864**	**9,474,333**	152,531
Provisions			
Other provisions	**704,917**	**612,643**	92,274
Total provisions	**704,917**	**612,643**	92,274
Total liabilities administered on behalf of government	**16,731,460**	**15,842,362**	889,098
Net assets	**20,541,182**	**24,593,422**	(4,052,240)

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2. Between the actual and original budgeted amounts for 2017. Explanations of major variances (that are greater than +/- 10 per cent of the original budget for a line item and greater than +/- $1 billion) are provided below.

Explanations of major variances	Affected line items
Loans and other receivables as at 30 June 2017 totalled $2.1 billion, an increase of $1.0 billion compared with the original budget. The increase relates to higher than expected dividend revenue from the Reserve Bank of Australia.	Loans and other receivables
Investments as at 30 June 2017 totalled $35.2 billion, a decrease of $3.2 billion compared with the original budget. The decrease is driven by the change in the net asset position of the Reserve Bank of Australia and movements in the value of the IMF quota and other investments in international financial institutions as a result of changes in foreign exchange rates.	Investments