APPENDIX B: AUSTRALIAN GOVERNMENT BUDGET FINANCIAL STATEMENTS

The Mid-Year Economic and Fiscal Outlook (MYEFO) financial statements consist of an operating statement, including other economic flows, a balance sheet, and a cash flow statement for the Australian Government general government sector (GGS), the public non-financial corporations (PNFC) sector and the total non-financial public sector (NFPS). This statement also contains notes showing disaggregated information for the GGS.

The *Charter of Budget Honesty Act 1998* (the Charter) requires that MYEFO be based on external reporting standards and that departures from applicable external reporting standards be identified.

The Government has produced a single set of financial statements that comply with both the Australian Bureau of Statistics' (ABS) accrual Government Finance Statistics (GFS) and Australian Accounting Standards (AAS), meeting the requirement of the Charter, with departures disclosed. The financial statements for MYEFO have been prepared on a basis consistent with the 2013-14 Budget. The statements reflect the Government's accounting policy that ABS GFS remains the basis of budget accounting policy, except where the Government applies AAS because it provides a better conceptual basis for presenting information of relevance to users of public sector financial reports.

The Australian, State and Territory governments have an agreed framework — the Uniform Presentation Framework (UPF) — for the presentation of government financial information on a basis broadly consistent with the Australian Accounting Standards Board standard AASB 1049. The financial statements are consistent with the requirements of the UPF.

In accordance with the UPF requirements, this statement also contains an update of the Australian Government's Loan Council Allocation.

AUSTRALIAN GOVERNMENT FINANCIAL STATEMENTS

Table B1: Australian Government general government sector operating statement

		Estimates		Projections	
		2013-14	2014-15	2015-16	2016-17
	Note	$m	$m	$m	$m
Revenue					
Taxation revenue	3	351,434	366,356	394,705	421,066
Sales of goods and services	4	8,680	8,496	8,687	8,788
Interest income	5	3,730	4,060	4,364	4,680
Dividend income	5	3,792	2,448	2,657	3,352
Other	6	6,286	6,522	7,010	7,146
Total revenue		**373,922**	**387,882**	**417,423**	**445,032**
Expenses					
Gross operating expenses					
Wages and salaries(a)	7	19,815	19,618	19,730	20,384
Superannuation	7	5,304	4,117	4,209	4,180
Depreciation and amortisation	8	6,426	6,528	6,687	6,884
Supply of goods and services	9	74,514	79,091	82,272	83,968
Other operating expenses(a)	7	5,647	5,860	6,068	6,140
Total gross operating expenses		*111,706*	*115,214*	*118,966*	*121,554*
Superannuation interest expense	7	8,197	8,838	9,160	9,495
Interest expenses	10	14,926	16,390	18,184	19,224
Current transfers					
Current grants	11	118,955	125,314	130,783	139,703
Subsidy expenses		15,345	12,064	12,222	13,019
Personal benefits	12	122,784	127,791	136,262	146,477
Total current transfers		*257,085*	*265,169*	*279,268*	*299,198*
Capital transfers	11				
Mutually agreed write-downs		2,382	2,656	2,890	3,120
Other capital grants		17,764	9,491	7,551	4,518
Total capital transfers		*20,146*	*12,147*	*10,441*	*7,638*
Total expenses		**412,060**	**417,758**	**436,019**	**457,110**
Net operating balance		**-38,137**	**-29,876**	**-18,596**	**-12,078**
Other economic flows - included in operating result					
Net write-downs of assets (including bad and doubtful debts)		-6,016	-6,732	-7,219	-7,697
Assets recognised for the first time		456	475	495	515
Liabilities recognised for the first time		0	0	0	0
Actuarial revaluations		0	0	0	0
Net foreign exchange gains		60	160	126	136
Net swap interest received		-499	0	0	0
Market valuation of debt		7,371	-414	-781	-886
Other gains/(losses)		5,672	5,821	6,662	3,498
Total other economic flows - included in operating result		**7,043**	**-689**	**-716**	**-4,434**
Operating result(b)		**-31,094**	**-30,565**	**-19,312**	**-16,512**
Non-owner movements in equity					
Revaluation of equity investments		6,430	-281	0	0
Actuarial revaluations		10	181	218	252
Other economic revaluations		865	271	88	1,148
Total other economic flows - included in equity		**7,305**	**171**	**306**	**1,400**
Comprehensive result - Total change in net worth		**-23,789**	**-30,394**	**-19,007**	**-15,113**

Table B1: Australian Government general government sector operating statement (continued)

		Estimates		Projections	
		2013-14	2014-15	2015-16	2016-17
	Note	$m	$m	$m	$m
Net operating balance		**-38,137**	**-29,876**	**-18,596**	**-12,078**
Net acquisition of non-financial assets					
Purchases of non-financial assets		10,154	9,943	9,550	9,258
less Sales of non-financial assets		452	2,240	2,704	231
less Depreciation		6,426	6,528	6,687	6,884
plus Change in inventories		280	237	318	365
plus Other movements in non-financial assets		150	216	-297	-131
Total net acquisition of non-financial assets		**3,706**	**1,628**	**180**	**2,378**
Fiscal balance (Net lending/borrowing)(c)		**-41,843**	**-31,504**	**-18,776**	**-14,456**

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

Table B2: Australian Government general government sector balance sheet

		Estimates		Projections	
		2013-14	2014-15	2015-16	2016-17
	Note	$m	$m	$m	$m
Assets					
Financial assets					
Cash and deposits	19(a)	2,720	2,811	2,991	3,124
Advances paid	13	39,807	45,152	50,347	57,346
Investments, loans and placements	14	115,405	116,989	120,078	130,527
Other receivables	13	44,744	44,506	47,790	51,568
Equity investments					
Investments in other public sector entities		35,557	41,926	47,641	52,697
Equity accounted investments		300	303	306	309
Investments - shares		34,753	37,776	40,998	44,222
Total financial assets		*273,286*	*289,465*	*310,152*	*339,793*
Non-financial assets	15				
Land		8,981	8,942	8,906	8,876
Buildings		24,601	25,226	25,388	25,394
Plant, equipment and infrastructure		54,485	56,965	59,412	61,486
Inventories		7,820	7,640	7,538	7,455
Intangibles		5,828	5,835	5,813	5,864
Investment properties		198	198	198	198
Biological assets		33	33	33	33
Heritage and cultural assets		10,561	10,575	10,586	10,597
Assets held for sale		95	133	95	95
Other non-financial assets		442	657	360	230
Total non-financial assets		*113,045*	*116,205*	*118,329*	*120,228*
Total assets		**386,331**	**405,670**	**428,481**	**460,022**
Liabilities					
Interest bearing liabilities					
Deposits held		182	182	182	182
Government securities		335,066	382,357	419,027	458,125
Loans	16	12,708	12,163	11,985	11,957
Other borrowing		1,496	1,372	1,311	1,223
Total interest bearing liabilities		*349,452*	*396,074*	*432,506*	*471,487*
Provisions and payables					
Superannuation liability	17	149,786	155,144	160,565	166,080
Other employee liabilities	17	14,963	15,077	15,010	15,380
Suppliers payable	18	4,830	4,866	4,897	4,922
Personal benefits provisions and payable	18	12,147	12,283	12,574	13,043
Subsidies provisions and payable	18	3,986	3,719	3,873	4,064
Grants provisions and payable	18	14,154	11,796	10,865	11,693
Other provisions and payables	18	13,661	13,754	14,241	14,516
Total provisions and payables		*213,527*	*216,638*	*222,025*	*229,697*
Total liabilities		**562,980**	**612,713**	**654,531**	**701,184**
Net worth(a)		**-176,649**	**-207,043**	**-226,049**	**-241,162**
Net financial worth(b)		*-289,693*	*-323,248*	*-344,378*	*-361,390*
Net financial liabilities(c)		*325,251*	*365,175*	*392,020*	*414,088*
Net debt(d)		*191,520*	*231,122*	*259,089*	*280,490*

(a) Net worth is calculated as total assets minus total liabilities.
(b) Net financial worth equals total financial assets minus total liabilities.
(c) Net financial liabilities equals total liabilities less financial assets other than investments in other public sector entities.
(d) Net debt equals the sum of deposits held, government securities, loans and other borrowing, minus the sum of cash and deposits, advances paid and investments, loans and placements.

Table B3: Australian Government general government sector cash flow statement[(a)]

	Estimates		Projections	
	2013-14	2014-15	2015-16	2016-17
	$m	$m	$m	$m
Cash receipts from operating activities				
Taxes received	343,480	358,603	384,439	410,331
Receipts from sales of goods and services	8,626	8,442	8,637	8,733
Interest receipts	3,591	3,544	3,885	3,960
Dividends and income tax equivalents	2,883	3,891	2,699	2,748
Other receipts	5,941	5,981	6,719	6,813
Total operating receipts	**364,521**	**380,461**	**406,379**	**432,585**
Cash payments for operating activities				
Payments for employees	-27,037	-27,013	-27,655	-28,264
Payments for goods and services	-74,464	-79,015	-82,028	-83,918
Grants and subsidies paid	-153,845	-149,447	-151,048	-156,708
Interest paid	-12,419	-14,161	-17,350	-16,784
Personal benefit payments	-125,082	-127,938	-136,259	-146,128
Other payments	-5,873	-5,933	-6,412	-6,146
Total operating payments	**-398,719**	**-403,507**	**-420,752**	**-437,949**
Net cash flows from operating activities	**-34,198**	**-23,046**	**-14,373**	**-5,364**
Cash flows from investments in non-financial assets				
Sales of non-financial assets	409	2,282	2,704	231
Purchases of non-financial assets	-9,861	-10,189	-9,277	-9,162
Net cash flows from investments in non-financial assets	**-9,451**	**-7,907**	**-6,572**	**-8,931**
Net cash flows from investments in financial assets for policy purposes	**-7,522**	**-11,484**	**-10,741**	**-11,481**
Cash flows from investments in financial assets for liquidity purposes				
Increase in investments	-2,968	-2,658	-3,669	-10,240
Net cash flows from investments in financial assets for liquidity purposes	**-2,968**	**-2,658**	**-3,669**	**-10,240**
Cash receipts from financing activities				
Borrowing	56,850	47,472	37,870	39,136
Other financing	14	0	0	0
Total cash receipts from financing activities	**56,865**	**47,472**	**37,870**	**39,136**
Cash payments for financing activities				
Borrowing	0	0	0	0
Other financing	-2,080	-2,285	-2,336	-2,989
Total cash payments for financing activities	**-2,080**	**-2,285**	**-2,336**	**-2,989**
Net cash flows from financing activities	**54,785**	**45,187**	**35,534**	**36,148**
Net increase/(decrease) in cash held	**645**	**91**	**180**	**132**

Table B3: Australian Government general government sector cash flow statement (continued)[(a)]

	Estimates		Projections	
	2013-14	2014-15	2015-16	2016-17
	$m	$m	$m	$m
Net cash flows from operating activities and investments in non-financial assets (surplus(+)/deficit(-))	**-43,650**	**-30,953**	**-20,945**	**-14,295**
Finance leases and similar arrangements(b)	-469	0	0	0
GFS cash surplus(+)/deficit(-)	**-44,118**	**-30,953**	**-20,945**	**-14,295**
less Net Future Fund earnings	2,871	2,953	3,138	3,373
Equals underlying cash balance(c)	**-46,989**	**-33,907**	**-24,083**	**-17,668**
plus Net cash flows from investments in financial assets for policy purposes	-7,522	-11,484	-10,741	-11,481
plus Net Future Fund earnings	2,871	2,953	3,138	3,373
Equals headline cash balance	**-51,640**	**-42,437**	**-31,686**	**-25,776**

(a) A positive number denotes a cash inflow; a negative number denotes a cash outflow.
(b) The acquisition of assets under finance leases decreases the underlying cash balance. The disposal of assets previously held under finance leases increases the underlying cash balance.
(c) The term underlying cash balance is not used by the ABS.

Table B4: Australian Government public non-financial corporations sector operating statement

	Estimates
	2013-14
	$m
Revenue	
Current grants and subsidies	32
Sales of goods and services	9,466
Interest income	47
Other	1
Total revenue	**9,546**
Expenses	
Gross operating expenses	
Wages and salaries(a)	3,905
Superannuation	475
Depreciation and amortisation	1,080
Supply of goods and services	4,944
Other operating expenses(a)	416
Total gross operating expenses	*10,820*
Interest expenses	305
Other property expenses	187
Current transfers	
Tax expenses	67
Total current transfers	*67*
Total expenses	**11,379**
Net operating balance	**-1,833**
Other economic flows	**-191**
Comprehensive result - Total change in net worth excluding contribution from owners	**-2,024**
Net acquisition of non-financial assets	
Purchases of non-financial assets	4,177
less Sales of non-financial assets	267
less Depreciation	1,080
plus Change in inventories	12
plus Other movements in non-financial assets	16
Total net acquisition of non-financial assets	**2,857**
Fiscal balance (Net lending/borrowing)(b)	**-4,690**

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

Table B5: Australian Government public non-financial corporations sector balance sheet

	Estimates
	2013-14
	$m
Assets	
Financial assets	
Cash and deposits	1,380
Investments, loans and placements	87
Other receivables	1,378
Equity investments	33
Total financial assets	*2,877*
Non-financial assets	
Land and fixed assets	17,545
Other non-financial assets(a)	1,514
Total non-financial assets	*19,058*
Total assets	**21,935**
Liabilities	
Interest bearing liabilities	
Loans	2,570
Other borrowing	3,353
Total interest bearing liabilities	*5,924*
Provisions and payables	
Superannuation liability	59
Other employee liabilities	1,245
Other provisions and payables(a)	3,319
Total provisions and payables	*4,623*
Total liabilities	**10,547**
Shares and other contributed capital	**11,388**
Net worth(b)	**11,388**
Net financial worth(c)	*-7,670*
Net debt(d)	*4,457*

(a) Excludes the impact of commercial taxation adjustments.
(b) Under AASB 1049, net worth is calculated as total assets minus total liabilities. Under ABS GFS, net worth is calculated as total assets minus total liabilities minus shares and other contributed capital. The AASB 1049 method is used in this table.
(c) Under AASB 1049, net financial worth equals total financial assets minus total liabilities. Under ABS GFS, net financial worth equals total financial assets minus total liabilities minus shares and other contributed capital. The AASB 1049 method is used in this table.
(d) Net debt equals the sum of interest bearing liabilities (deposits held, advances received, loans and other borrowing), minus the sum of cash and deposits and investments, loans and placements.

Table B6: Australian Government public non-financial corporations sector cash flow statement[(a)]

	Estimates 2013-14 $m
Cash receipts from operating activities	
Receipts from sales of goods and services	10,654
GST input credit receipts	184
Other receipts	111
Total operating receipts	**10,949**
Cash payments for operating activities	
Payments to employees	-4,062
Payment for goods and services	-5,453
Interest paid	-72
GST payments to taxation authority	-505
Other payments	-341
Total operating payments	**-10,433**
Net cash flows from operating activities	**516**
Cash flows from investments in non-financial assets	
Sales of non-financial assets	248
Purchases of non-financial assets	-4,210
Net cash flows from investments in non-financial assets	**-3,962**
Net cash flows from investments in financial assets for policy purposes	**0**
Cash flows from investments in financial assets for liquidity purposes	
Increase in investments	921
Net cash flows from investments in financial assets for liquidity purposes	**921**
Net cash flows from financing activities	
Borrowing (net)	-56
Other financing (net)	3,265
Distribution paid (net)	-195
Net cash flows from financing activities	**3,014**
Net increase/(decrease) in cash held	**489**
Cash at the beginning of the year	**891**
Cash at the end of the year	**1,380**
Net cash from operating activities and investments in non-financial assets	**-3,446**
Distributions paid	-195
Equals surplus(+)/deficit(-)	**-3,641**
Finance leases and similar arrangements(b)	0
GFS cash surplus(+)/deficit(-)	**-3,641**

(a) A positive number denotes a cash inflow; a negative number denotes a cash outflow.
(b) The acquisition of assets under finance leases decreases the surplus or increases the deficit. The disposal of assets previously held under finance leases increases the surplus or decreases the deficit.

Table B7: Australian Government total non-financial public sector operating statement

	Estimates
	2013-14
	$m
Revenue	
Taxation revenue	351,367
Sales of goods and services	16,813
Interest income	3,758
Dividend income	3,604
Other	6,288
Total revenue	**381,830**
Expenses	
Gross operating expenses	
Wages and salaries(a)	23,719
Superannuation	5,780
Depreciation and amortisation	7,506
Supply of goods and services	78,125
Other operating expenses(a)	6,063
Total gross operating expenses	*121,193*
Superannuation interest expense	8,197
Interest expenses	15,211
Current transfers	
Current grants	118,955
Subsidy expenses	15,314
Personal benefits	122,784
Total current transfers	*257,053*
Capital transfers	20,146
Total expenses	**421,800**
Net operating balance	**-39,970**
Other economic flows	**16,097**
Comprehensive result - Total change in net worth	**-23,873**
Net acquisition of non-financial assets	
Purchases of non-financial assets	14,330
less Sales of non-financial assets	719
less Depreciation	7,506
plus Change in inventories	292
plus Other movements in non-financial assets	166
Total net acquisition of non-financial assets	**6,563**
Fiscal balance (net lending/borrowing)(b)	**-46,533**

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

Table B8: Australian Government total non-financial public sector balance sheet

	Estimates
	2013-14
	$m
Assets	
Financial assets	
Cash and deposits	4,100
Advances paid	39,807
Investments, loans and placements	115,189
Other receivables	45,982
Equity investments	58,684
Total financial assets	*263,762*
Non-financial assets	
Land and fixed assets	123,993
Other non-financial assets	8,110
Total non-financial assets	*132,103*
Total assets	**395,865**
Liabilities	
Interest bearing liabilities	
Deposits held	182
Government securities	335,066
Loans	14,975
Other borrowing	4,850
Total interest bearing liabilities	*355,073*
Provisions and payables	
Superannuation liability	149,846
Other employee liabilities	16,208
Other provisions and payables	51,957
Total provisions and payables	*218,011*
Total liabilities	**573,084**
Shares and other contributed capital	**11,388**
Net worth(a)	**-177,219**
Net financial worth(b)	*-309,322*
Net debt(c)	*195,977*

(a) Under AASB 1049, net worth is calculated as total assets minus total liabilities. Under ABS GFS, net worth is calculated as total assets minus total liabilities minus shares and other contributed capital. The AASB 1049 method is used in this table.

(b) Under AASB 1049, net financial worth equals total financial assets minus total liabilities. Under ABS GFS, net financial worth equals total financial assets minus total liabilities minus shares and other contributed capital. The AASB 1049 method is used in this table.

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

Table B9: Australian total non-financial public sector cash flow statement[(a)]

	Estimates
	2013-14
	$m
Cash receipts from operating activities	
Taxes received	343,480
Receipts from sales of goods and services	17,945
Interest receipts	3,625
Dividends and income tax equivalents	2,688
Other receipts	5,998
Total operating receipts	**373,736**
Cash payments for operating activities	
Payments to employees	-31,099
Payments for goods and services	-78,902
Grants and subsidies paid	-153,845
Interest paid	-12,471
Personal benefit payments	-125,082
Other payments	-6,214
Total operating payments	**-407,614**
Net cash flows from operating activities	**-33,878**
Cash flows from investments in non-financial assets	
Sales of non-financial assets	657
Purchases of non-financial assets	-14,070
Net cash flows from investments in non-financial assets	**-13,413**
Net cash flows from investments in financial assets for policy purposes	**-4,033**
Cash flows from investments in financial assets for liquidity purposes	
Increase in investments	-2,047
Net cash flows from investments in financial assets for liquidity purposes	**-2,047**
Net cash flows from financing activities	
Borrowing (net)	56,794
Other financing (net)	-2,290
Net cash flows from financing activities	**54,505**
Net increase/(decrease) in cash held	**1,133**
Cash at the beginning of the year	**2,966**
Cash at the end of the year	**4,100**
Net cash from operating activities and investments in non-financial assets	**-47,291**
Distributions paid	0
Equals surplus(+)/deficit(-)	**-47,291**
Finance leases and similar arrangements(b)	-469
GFS cash surplus(+)/deficit(-)	**-47,759**

(a) A positive number denotes a cash inflow; a negative number denotes a cash outflow.
(b) The acquisition of assets under finance leases decreases the surplus or increases the deficit. The disposal of assets previously held under finance leases increases the surplus or decreases the deficit.

NOTES TO THE GENERAL GOVERNMENT SECTOR FINANCIAL STATEMENTS

Note 1: External reporting standards and accounting policies

The *Charter of Budget Honesty Act 1998* (the Charter) requires that the Mid-Year Economic and Fiscal Outlook (MYEFO) be based on external reporting standards and that departures from applicable external reporting standards be identified.

The external standards used for MYEFO reporting purposes are:

- the Australian Bureau of Statistics' (ABS) accrual Government Finance Statistics (GFS) publication, *Australian System of Government Finance Statistics: Concepts, Sources and Methods* (cat. no. 5514.0), which in turn is based on the International Monetary Fund (IMF) accrual GFS framework; and

- Australian Accounting Standards (AAS) issued by the Australian Accounting Standards Board (AASB), which includes International Financial Reporting Standards (IFRS) as adopted in Australia and the public sector specific standard AASB 1049 *Whole of Government and General Government Sector Financial Reporting*.

The financial statements have been prepared on an accrual basis that complies with both ABS GFS and AAS, except for departures disclosed at Note 2.

A more detailed description of the AAS and ABS GFS frameworks, in addition to definitions of key terms used in these frameworks, can be found in Attachment A. Table B11 in Attachment A explains the key differences between the two frameworks. Detailed accounting policies, as required by AAS, are disclosed in the annual Consolidated Financial Statements.

Fiscal reporting focuses on the general government sector (GGS). The GGS provides public services that are mainly non-market in nature and for the collective consumption of the community, or involve the transfer or redistribution of income. These services are largely financed through taxes and other compulsory levies, user charging and external funding. This sector comprises all government departments, offices and some other bodies. In preparing financial statements for the GGS, all material transactions and balances between entities within the GGS have been eliminated. A list of entities within the GGS, as well as entities within and a description of the public non-financial corporations (PNFC) sector and public financial corporations (PFC) sector, are disclosed in Table B10 in Attachment A.

The Government's key fiscal aggregates are based on ABS GFS concepts and definitions, including the ABS GFS cash surplus/deficit and the derivation of the underlying cash balance and net financial worth. AASB 1049 requires the disclosure of other ABS GFS fiscal aggregates, including net operating balance, net lending/borrowing (fiscal balance) and net worth. In addition to these ABS GFS aggregates, the Uniform Presentation Framework (UPF) requires disclosure of net debt, net financial worth and net financial liabilities.

Explanations of variations in fiscal balance, revenue, expenses, net capital investment, cash flows, net debt, net financial worth and net worth since the 2013 Pre-election Economic and Fiscal Outlook (PEFO) are disclosed in Part 3.

Updates to fiscal risks and contingent liabilities since the 2013-14 Budget are disclosed in Appendix C.

Note 2: Departures from external reporting standards

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

General government sector

Departures from ABS GFS

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

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

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

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

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

Movements in the provision for restoration, decommissioning and make-good of assets have been included in the calculation of the fiscal balance capital adjustment because in many cases they involve legal obligations to expend resources. ABS GFS does not recognise adjustments for such provisions because they are considered a constructive obligation that may not materialise for many years.

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

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

For the calculation of fiscal balance, ABS GFS recognises the sale of spectrum at auction while AAS recognises the sale at the time licences are transferred. Both recognise cash at the time of receipt for underlying cash balance purposes. The AAS treatment has been adopted in the financial statements.

Departures from AAS

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

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

Under an AASB issued staff paper, AAS recognises transactions under the carbon tax in the financial statements where they are expected to result in a receipt or payment of cash by the government at the amount of the expected cash settlement. The issuance and surrender of free carbon units and Australian Carbon Credit Units (ACCUs) used in the settlement of emissions liabilities do not qualify for recognition by the government as assets, liabilities, revenues or expenses.

Under ABS GFS the issuance of free carbon units that are expected to be used to settle an emitter's obligation are treated as an expense on issue and revenue when emissions occur. The ABS GFS treatment has been adopted in the financial statements.

AASB 1049 requires disaggregated information, by ABS GFS function, for expenses and total assets to be disclosed where they are reliably attributable. ABS GFS does not require total assets to be attributed to functions. In accordance with ABS GFS, disaggregated information for expenses is disclosed in Attachment D of Part 3.

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

AASB 1049 requires major variances between original budget estimates and outcomes to be explained in the financial statements. Explanations of major variances for the 2013-14 year from the 2013-14 Budget are disclosed in Part 3. All policy decisions taken between the 2013 PEFO and the 2013-14 MYEFO are disclosed in Appendix A.

In addition to the above adjustments, there are specific adjustments made to the corporations sectors as outlined below.

Public non-financial corporations (PNFC) sector and total non-financial public sector (NFPS)

Departures from ABS GFS

AASB 1049 defines net worth for the PNFC sector and NFPS as total assets less total liabilities; however, ABS GFS defines net worth as total assets less total liabilities less shares and contributed capital (which is equal to zero for the PNFC sector). Similarly, AASB 1049 defines net financial worth for these sectors as financial assets less total liabilities, whereas under ABS GFS it is equal to financial assets less total liabilities less shares and contributed capital. The AASB 1049 treatment has been adopted in the PNFC sector and NFPS financial statements.

Departures from AAS

The financial statements for the PNFC sector and NFPS comply with the UPF but do not include all the line item disclosures required by AASB 1049. Disaggregated outcome notes for the PNFC sector will be disclosed in the Consolidated Financial Statements.

AAS requires dividends paid to be classified as a distribution of equity. Under ABS GFS, dividends paid are classified as an expense. The ABS GFS treatment has been adopted for use in the financial statements.

Australian Government public corporations use commercial tax effect accounting to determine their net tax liability while the ATO determines their tax liability on a due and payable basis. To ensure symmetry in treatment between Australian Government sectors, the ABS removes tax effect adjustments. The ABS GFS treatment has been adopted in the financial statements.

Note 3: Taxation revenue by type

	Estimates		Projections	
	2013-14	2014-15	2015-16	2016-17
	$m	$m	$m	$m
Individuals and other withholding taxes				
Gross income tax withholding	158,510	170,210	185,010	198,290
Gross other individuals	36,650	39,500	43,730	48,230
less Refunds	27,200	28,000	29,400	30,700
Total individuals and other withholding tax	167,960	181,710	199,340	215,820
Fringe benefits tax	4,140	4,550	4,800	5,090
Company tax	70,400	72,330	75,690	79,130
Superannuation fund taxes	6,990	8,930	11,100	12,180
Minerals resource rent tax(a)	500	300	0	0
Petroleum resource rent tax	1,900	2,100	2,230	2,390
Total income taxation revenue	**251,890**	**269,920**	**293,160**	**314,610**
Goods and services tax	52,680	55,710	58,900	62,070
Wine equalisation tax	750	790	830	880
Luxury car tax	400	380	410	430
Excise and customs duty				
Petrol	5,740	5,670	5,820	5,850
Diesel	8,820	9,205	9,310	9,490
Other fuel products	3,730	3,590	3,630	3,660
Tobacco	8,260	9,130	10,040	10,890
Beer	2,320	2,370	2,490	2,640
Spirits	1,990	2,090	2,220	2,330
Other alcoholic beverages(b)	970	990	1,040	1,100
Other customs duty				
Textiles, clothing and footwear	750	600	420	450
Passenger motor vehicles	930	920	920	940
Other imports	1,580	1,600	1,660	1,760
less Refunds and drawbacks	260	260	260	260
Total excise and customs duty	34,830	35,905	37,290	38,850
Carbon pricing mechanism(c)	7,340	0	0	0
Agricultural levies	459	470	460	464
Other taxes	3,086	3,182	3,656	3,762
Mirror taxes	508	542	573	596
less Transfers to States in relation to mirror tax revenue	508	542	573	596
Mirror tax revenue	0	0	0	0
Total indirect taxation revenue	**99,545**	**96,437**	**101,545**	**106,456**
Total taxation revenue	**351,434**	**366,356**	**394,705**	**421,066**
Memorandum:				
Total excise	*25,900*	*26,725*	*27,780*	*28,760*
Total customs duty	*8,930*	*9,180*	*9,510*	*10,090*
Capital gains tax(d)	*7,900*	*10,700*	*13,200*	*15,400*
Medicare and DisabilityCare Australia levy(e)	*9,950*	*10,380*	*14,035*	*15,000*

(a) Net revenue from the minerals resource rent tax are expected to be $0.3 billion in 2013-14 and $0.2 billion in 2014-15 which represent the net revenue impact across different revenue heads. These include the offsetting reductions in company tax (through deductibility) and interactions with other taxes. The Government has announced the minerals resource rent tax will not apply beyond 30 June 2014.

(b) Other alcoholic beverages are those not exceeding 10 per cent by volume of alcohol (excluding beer, brandy and wine).

(c) Tax revenue includes carbon accrual revenue measured at the legislated price, with details of the accounting treatment of carbon revenue set out in Note 2 to the General Government Sector Financial Statements.

(d) Capital gains tax is part of gross other individuals, company tax and superannuation fund taxes.

(e) The Medicare and DisabilityCare Australia levy liabilities are reported in the year in which the income tax liability is assessed.

Note 3(a): Taxation revenue by source

	Estimates		Projections	
	2013-14	2014-15	2015-16	2016-17
	$m	$m	$m	$m
Taxes on income, profits and capital gains				
Income and capital gains levied on individuals	172,110	186,280	204,160	220,940
Income and capital gains levied on enterprises	79,780	83,640	89,000	93,670
Total taxes on income, profits and capital gains	**251,890**	**269,920**	**293,160**	**314,610**
Taxes on employers' payroll and labour force	553	583	606	630
Taxes on the provision of goods and services				
Sales/goods and services tax	53,830	56,880	60,140	63,380
Excises and levies	26,359	27,195	28,240	29,224
Taxes on international trade	8,930	9,180	9,510	10,090
Total taxes on the provision of goods and services	**89,119**	**93,255**	**97,890**	**102,694**
Other sale of goods and services	9,873	2,599	3,050	3,132
Total taxation revenue	**351,434**	**366,356**	**394,705**	**421,066**
Memorandum:				
Medicare and DisabilityCare Australia levy (a)	*9,950*	*10,380*	*14,035*	*15,000*

(a) The Medicare and DisabilityCare Australia levy liabilities are reported in the year in which the income tax liability is assessed.

Note 4: Sales of goods and services revenue

	Estimates		Projections	
	2013-14	2014-15	2015-16	2016-17
	$m	$m	$m	$m
Sales of goods	1,570	1,560	1,587	1,674
Rendering of services	3,783	3,450	3,475	3,390
Operating lease rental	55	55	57	55
Fees from regulatory services	3,272	3,431	3,567	3,670
Total sales of goods and services revenue	**8,680**	**8,496**	**8,687**	**8,788**

Note 5: Interest and dividend revenue

	Estimates		Projections	
	2013-14	2014-15	2015-16	2016-17
	$m	$m	$m	$m
Interest from other governments				
State and Territory debt	9	12	14	13
Housing agreements	138	134	129	124
Total interest from other governments	**148**	**146**	**143**	**137**
Interest from other sources				
Advances	48	52	56	62
Deposits	93	93	94	102
Bank deposits	134	144	153	148
Indexation of HELP receivable and other student loans	557	653	779	916
Other	2,751	2,972	3,139	3,314
Total interest from other sources	**3,582**	**3,914**	**4,222**	**4,542**
Total interest	**3,730**	**4,060**	**4,364**	**4,680**
Dividends				
Dividends from other public sector entities	1,772	396	437	965
Other dividends	2,020	2,051	2,220	2,387
Total dividends	**3,792**	**2,448**	**2,657**	**3,352**
Total interest and dividend revenue	**7,522**	**6,508**	**7,021**	**8,032**

Note 6: Other sources of non-taxation revenue

	Estimates		Projections	
	2013-14	2014-15	2015-16	2016-17
	$m	$m	$m	$m
Industry contributions	43	42	42	42
Royalties	1,631	1,549	1,631	1,630
Seigniorage	135	138	137	138
Other	4,478	4,793	5,201	5,337
Total other sources of non-taxation revenue	**6,286**	**6,522**	**7,010**	**7,146**

Note 7: Employee and superannuation expense

	Estimates		Projections	
	2013-14	2014-15	2015-16	2016-17
	$m	$m	$m	$m
Wages and salaries expenses	**19,815**	**19,618**	**19,730**	**20,384**
Other operating expenses				
Leave and other entitlements	2,495	2,488	2,523	2,494
Separations and redundancies	77	46	45	42
Workers compensation premiums and claims	593	680	723	953
Other	2,483	2,647	2,777	2,650
Total other operating expenses	**5,647**	**5,860**	**6,068**	**6,140**
Superannuation expenses				
Superannuation	5,304	4,117	4,209	4,180
Superannuation interest cost	8,197	8,838	9,160	9,495
Total superannuation expenses	**13,502**	**12,955**	**13,369**	**13,675**
Total employee and superannuation expense	**38,964**	**38,434**	**39,167**	**40,199**

Note 8: Depreciation and amortisation expense

	Estimates		Projections	
	2013-14	2014-15	2015-16	2016-17
	$m	$m	$m	$m
Depreciation				
Specialist military equipment	2,819	2,934	3,065	3,337
Buildings	1,308	1,297	1,298	1,267
Other infrastructure, plant and equipment	1,407	1,439	1,453	1,431
Heritage and cultural assets	37	37	38	37
Total depreciation	**5,571**	**5,707**	**5,853**	**6,073**
Total amortisation	**854**	**820**	**833**	**811**
Total depreciation and amortisation expense	**6,426**	**6,528**	**6,687**	**6,884**

Note 9: Supply of goods and services expense

	Estimates		Projections	
	2013-14	2014-15	2015-16	2016-17
	$m	$m	$m	$m
Supply of goods and services	23,623	25,694	24,980	23,877
Operating lease rental expenses	2,549	2,504	2,594	2,607
Personal benefits - indirect	41,137	43,829	47,733	50,734
Health care payments	5,414	5,482	5,578	5,794
Other	1,790	1,582	1,388	955
Total supply of goods and services expense	**74,514**	**79,091**	**82,272**	**83,968**

Note 10: Interest expense

	Estimates		Projections	
	2013-14	2014-15	2015-16	2016-17
	$m	$m	$m	$m
Interest on debt				
Government securities(a)	13,455	14,954	16,741	18,027
Loans	10	9	8	0
Other	536	528	527	523
Total interest on debt	**14,001**	**15,492**	**17,276**	**18,550**
Other financing costs	**925**	**898**	**908**	**674**
Total interest expense	**14,926**	**16,390**	**18,184**	**19,224**

(a) Public debt interest estimates are calculated using the contract interest rates incurred on existing Commonwealth Government Securities (CGS) when issued and technical assumptions, based on prevailing market interest rates across the yield curve, for yields on future CGS issuance.

Note 11: Current and capital grants expense

	Estimates		Projections	
	2013-14	2014-15	2015-16	2016-17
	$m	$m	$m	$m
Current grants expense				
State and Territory governments	87,920	92,909	98,788	105,674
Local governments	17	6	2	0
Private sector	2,714	2,196	1,801	1,477
Overseas	4,915	5,116	5,722	6,881
Non-profit organisations	1,661	1,787	2,004	1,802
Multi-jurisdictional sector	9,791	10,144	10,319	10,654
Other	11,937	13,157	12,148	13,216
Total current grants expense	**118,955**	**125,314**	**130,783**	**139,703**
Capital grants expense				
Mutually agreed write-downs	2,382	2,656	2,890	3,120
Other capital grants				
State and Territory governments	7,901	8,047	6,549	3,470
Local governments	436	795	393	392
Private sector	34	1	1	1
Multi-jurisdictional sector	99	102	104	108
Other	9,295	545	504	548
Total capital grants expense	**20,146**	**12,147**	**10,441**	**7,638**
Total grants expense	**139,101**	**137,461**	**141,225**	**147,340**

Note 12: Personal benefits expense

	Estimates		Projections	
	2013-14	2014-15	2015-16	2016-17
	$m	$m	$m	$m
Social welfare - assistance to the aged	40,433	43,139	45,994	49,401
Assistance to veterans and dependants	6,172	6,032	5,917	5,772
Assistance to people with disabilities	22,898	24,152	25,401	26,913
Assistance to families with children	31,319	31,509	31,733	32,433
Assistance to the unemployed	10,338	11,187	9,682	9,563
Student assistance	3,541	3,333	3,322	3,426
Other welfare programmes	322	332	323	336
Financial and fiscal affairs	374	377	413	424
Vocational and industry training	276	271	267	267
Other	7,111	7,459	13,210	17,940
Total personal benefits expense	**122,784**	**127,791**	**136,262**	**146,477**

Note 13: Advances paid and other receivables

	Estimates		Projections	
	2013-14	2014-15	2015-16	2016-17
	$m	$m	$m	$m
Advances paid				
Loans to State and Territory governments	2,500	2,459	2,383	2,288
Higher Education Loan Program	25,441	30,392	35,711	41,451
Student Financial Supplement Scheme	624	573	525	480
Other	11,267	11,753	11,753	13,152
less Provision for doubtful debts	24	24	24	24
Total advances paid	**39,807**	**45,152**	**50,347**	**57,346**
Other receivables				
Goods and services receivable	804	804	797	808
Recoveries of benefit payments	3,440	3,580	3,713	3,855
Taxes receivable	22,437	22,886	25,320	27,597
Prepayments	2,559	2,633	2,748	2,883
Other	18,886	18,120	18,869	20,235
less Provision for doubtful debts	3,382	3,517	3,657	3,811
Total other receivables	**44,744**	**44,506**	**47,790**	**51,568**

Note 14: Investments, loans and placements

	Estimates		Projections	
	2013-14	2014-15	2015-16	2016-17
	$m	$m	$m	$m
Investments - deposits	30,247	26,844	22,800	25,662
IMF quota	10,640	10,826	11,014	11,207
Other	74,519	79,319	86,264	93,658
Total investments, loans and placements	**115,405**	**116,989**	**120,078**	**130,527**

Note 15: Total non-financial assets

	Estimates		Projections	
	2013-14	2014-15	2015-16	2016-17
	$m	$m	$m	$m
Land and buildings				
Land	8,981	8,942	8,906	8,876
Buildings	24,601	25,226	25,388	25,394
Total land and buildings	**33,582**	**34,168**	**34,294**	**34,270**
Plant, equipment and infrastructure				
Specialist military equipment	40,746	42,851	45,422	47,995
Other	13,739	14,114	13,990	13,492
Total plant, equipment and infrastructure	**54,485**	**56,965**	**59,412**	**61,486**
Inventories				
Inventories held for sale	1,160	1,104	1,103	1,133
Inventories not held for sale	6,660	6,536	6,436	6,322
Total inventories	**7,820**	**7,640**	**7,538**	**7,455**
Intangibles				
Computer software	3,575	3,361	3,122	2,877
Other	2,253	2,474	2,691	2,987
Total intangibles	**5,828**	**5,835**	**5,813**	**5,864**
Total investment properties	**198**	**198**	**198**	**198**
Total biological assets	**33**	**33**	**33**	**33**
Total heritage and cultural assets	**10,561**	**10,575**	**10,586**	**10,597**
Total assets held for sale	**95**	**133**	**95**	**95**
Total other non-financial assets	**442**	**657**	**360**	**230**
Total non-financial assets	**113,045**	**116,205**	**118,329**	**120,228**

Note 16: Loans

	Estimates		Projections	
	2013-14	2014-15	2015-16	2016-17
	$m	$m	$m	$m
Promissory notes	6,955	6,432	6,410	6,386
Special drawing rights	4,977	5,065	5,153	5,243
Other	776	666	422	327
Total loans	**12,708**	**12,163**	**11,985**	**11,957**

Note 17: Employee and superannuation liabilities

	Estimates		Projections	
	2013-14	2014-15	2015-16	2016-17
	$m	$m	$m	$m
Total superannuation liability(a)	**149,786**	**155,144**	**160,565**	**166,080**
Other employee liabilities				
Leave and other entitlements	7,450	7,508	7,617	7,730
Accrued salaries and wages	661	684	490	517
Workers compensation claims	3,169	3,235	3,305	3,382
Separations and redundancies	84	84	84	84
Other	3,600	3,566	3,515	3,667
Total other employee liabilities	**14,963**	**15,077**	**15,010**	**15,380**
Total employee and superannuation liabilities	**164,749**	**170,221**	**175,575**	**181,460**

(a) For budget reporting purposes, a discount rate applied by actuaries in preparing Long-Term Cost Reports is used to value the superannuation liability. This reduces the volatility in reported liabilities that would occur from year to year if the long-term government bond rate were used. Consistent with AAS, the long-term government bond rate as at 30 June is used to calculate the superannuation liability for the purpose of actuals reporting.

Note 18: Provisions and payables

	Estimates		Projections	
	2013-14	2014-15	2015-16	2016-17
	$m	$m	$m	$m
Suppliers payable				
Trade creditors	4,109	4,141	4,171	4,137
Operating lease rental payable	221	224	225	224
Other creditors	500	500	501	561
Total suppliers payable	**4,830**	**4,866**	**4,897**	**4,922**
Total personal benefits provisions and payable	**12,147**	**12,283**	**12,574**	**13,043**
Total subsidies provisions and payable	**3,986**	**3,719**	**3,873**	**4,064**
Grants provisions and payable				
State and Territory governments	145	144	146	144
Non-profit organisations	101	101	101	101
Private sector	364	364	364	364
Overseas	2,300	2,313	1,830	2,423
Local governments	11	11	11	11
Other	11,233	8,862	8,413	8,650
Total grants provisions and payable	**14,154**	**11,796**	**10,865**	**11,693**
Other provisions and payables				
Provisions for tax refunds	3,432	3,454	3,508	3,512
Other	10,228	10,301	10,733	11,003
Total other provisions and payables	**13,661**	**13,754**	**14,241**	**14,516**

Note 19: Reconciliation of cash

	Estimates		Projections	
	2013-14	2014-15	2015-16	2016-17
	$m	$m	$m	$m
Net operating balance (revenues less expenses)	**-38,137**	**-29,876**	**-18,596**	**-12,078**
less **Revenues not providing cash**				
Other	906	1,353	1,579	1,842
Total revenues not providing cash	**906**	**1,353**	**1,579**	**1,842**
plus **Expenses not requiring cash**				
Increase/(decrease) in employee entitlements	6,438	5,652	5,571	6,137
Depreciation/amortisation expense	6,426	6,528	6,687	6,884
Mutually agreed write-downs	2,382	2,656	2,890	3,120
Other	428	594	773	-534
Total expenses not requiring cash	**15,673**	**15,430**	**15,921**	**15,608**
plus **Cash provided / (used) by working capital items**				
Decrease/(increase) in inventories	-147	-96	-169	-208
Decrease/(increase) in receivables	-8,161	-5,565	-9,285	-10,363
Decrease/(increase) in other financial assets	1,690	1,533	1,584	2,239
Decrease/(increase) in other non-financial assets	-51	19	-23	-49
Increase/(decrease) in benefits, subsidies and grants payable	-3,642	-2,363	-308	2,138
Increase/(decrease) in suppliers' liabilities	594	19	4	34
Increase/(decrease) in other provisions and payables	-1,112	-793	-1,921	-841
Net cash provided / (used) by working capital	**-10,828**	**-7,246**	**-10,118**	**-7,051**
equals (Net cash from/(to) operating activities)	-34,198	-23,046	-14,373	-5,364
plus (Net cash from/(to) investing activities)	-19,942	-22,049	-20,982	-30,652
Net cash from operating activities and investment	**-54,140**	**-45,096**	**-35,354**	**-36,015**
plus (Net cash from/(to) financing activities)	54,785	45,187	35,534	36,148
equals Net increase/(decrease) in cash held	**645**	**91**	**180**	**132**
Cash at the beginning of the year	**2,075**	**2,720**	**2,811**	**2,991**
Net increase/(decrease) in cash	645	91	180	132
Cash at the end of the year	**2,720**	**2,811**	**2,991**	**3,124**

Note 19(a): Consolidated Revenue Fund

	Estimates		Projections	
	2013-14	2014-15	2015-16	2016-17
	$m	$m	$m	$m
Total general government sector cash	2,720	2,811	2,991	3,124
less CAC Agency cash balances	1,822	1,893	2,050	2,202
plus Special public monies	311	311	311	311
Balance of Consolidated Revenue Fund at 30 June	**1,209**	**1,229**	**1,252**	**1,233**

The estimated and projected cash balances reflected in the balance sheet for the Australian Government GGS (Table B2) include the reported cash balances controlled and administered by Australian Government agencies subject to the *Financial Management and Accountability Act 1997*, and the reported cash balances controlled and administered by entities subject to the *Commonwealth Authorities and Companies Act 1997* (CAC Act), or from 1 July 2014 the entities subject to the equivalent provisions of the *Public Governance, Performance and Accountability Act 2013,* that implement public policy through the provision of primarily non-market services.

Revenues or monies raised by the Executive Government automatically form part of the Consolidated Revenue Fund by force of section 81 of the Australian Constitution. For practical purposes, total Australian Government GGS cash, less cash controlled and administered by CAC Act entities, plus special public monies, represents the Consolidated Revenue Fund referred to in section 81 of the Australian Constitution. On this basis, the balance of the Consolidated Revenue Fund is shown above.

Attachment A

FINANCIAL REPORTING STANDARDS AND BUDGET CONCEPTS

The *Charter of Budget Honesty Act 1998* (the Charter) requires the Mid-Year Economic and Fiscal Outlook (MYEFO) to be based on external reporting standards.

The Government has produced a single set of financial statements that comply with both ABS GFS and AAS, meeting the requirement of the Charter, with departures disclosed. The financial statements for the *Mid-Year Economic and Fiscal Outlook 2013-14* have been prepared on a basis consistent with the 2013-14 Budget. The statements reflect the Government's accounting policy that ABS GFS remains the basis of budget accounting policy, except where the Government applies AAS because it provides a better conceptual basis for presenting information of relevance to users of public sector financial reports.

AASB 1049 and the Uniform Presentation Framework (UPF) also provide a basis for reporting of the public non-financial corporations (PNFC) and public financial corporations (PFC) sectors and the total non-financial public sector (NFPS).

General Government Sector Financial Reporting (AASB 1049)

The MYEFO primarily focuses on the financial performance and position of the general government sector (GGS). The ABS defines the GGS as providing public services which are mainly non-market in nature, mainly for the collective consumption of the community, involving the transfer or redistribution of income and financed mainly through taxes and other compulsory levies. AASB 1049 recognises the GGS as a reporting entity.

AASB 1049 history and conceptual framework

The Australian Accounting Standards Board (AASB) released AASB 1049 for application from the 2008-09 financial year. AASB 1049 seeks to 'harmonise' ABS GFS and AAS.

The reporting framework for AASB 1049 requires the preparation of accrual-based general purpose financial reports, showing government assets, liabilities, revenue, expenses and cash flows. GGS reporting under AASB 1049 aims to provide users with information about the stewardship of each government in relation to its GGS and accountability for the resources entrusted to it; information about the financial position, performance and cash flows of each government's GGS; and information that facilitates assessments of the macroeconomic impact. While AASB 1049 provides a basis for whole-of-government and GGS outcome reporting (including the PNFC and PFC sectors), budget reporting focuses on the GGS.

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

- an operating statement, including other economic flows, which shows net operating balance and net lending/borrowing (fiscal balance);
  - to allow the presentation of a single set of financial statements in accordance with AASB 1049, the ABS GFS statement of other economic flows has been incorporated into the operating statement;
- a balance sheet, which also shows net worth, net financial worth, net financial liabilities and net debt; and
- a cash flow statement, which includes the calculation of the underlying cash balance.

In addition to these general purpose statements, notes to the financial statements are required. These notes include a summary of accounting policies, disaggregated information and other disclosures required by AAS. A full set of notes and other disclosures required by AAS are included in the annual Consolidated Financial Statements.

All financial data presented in the financial statements are recorded as either stocks (assets and liabilities) or flows (classified as either transactions or other economic flows). Transactions result from a mutually agreed interaction between economic entities. Despite their compulsory nature, taxes are transactions deemed to occur by mutual agreement between the government and the taxpayer. Transactions that increase or decrease net worth (assets less liabilities) are reported as revenues and expenses respectively in the operating statement.[1]

A change to the value or volume of an asset or liability that does not result from a transaction is an 'other economic flow'. This can include changes in values from market prices, most actuarial valuations and exchange rates, and changes in volumes from discoveries, depletion and destruction. All other economic flows are reported in the operating statement.

Consistent with the ABS GFS framework, and in general AAS, the financial statements record flows in the period in which they occur. As a result, prior period outcomes may be revised for classification changes relating to information that could reasonably have been expected to be known in the past, is material in at least one of the affected periods and can be reliably assigned to the relevant period(s).

1 Not all transactions impact on net worth. For example, transactions in financial assets and liabilities do not impact on net worth as they represent the swapping of assets and liabilities on the balance sheet.

Operating statement

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

Revenues arise from transactions that increase net worth and expenses arise from transactions that decrease net worth. Revenues less expenses gives the net operating balance. The net operating balance is similar to the National Accounts concept of government saving plus capital transfers.

The net acquisition of non-financial assets (net capital investment) measures the change in the Australian Government's stock of non-financial assets owing to transactions. As such, it measures the net effect of purchases, sales and consumption (for example, depreciation of fixed assets and use of inventory) of non-financial assets during an accounting period.

Net acquisition of non-financial assets equals gross fixed capital formation, less depreciation, plus changes (investment) in inventories, plus other transactions in non-financial assets.

Other economic flows are presented in the operating statement and outline changes in net worth that are driven by economic flows other than revenues and expenses. Revenues, expenses and other economic flows sum to the total change in net worth during a period. The majority of other economic flows for the Australian Government GGS arise from price movements in its assets and liabilities.

Fiscal balance

The fiscal balance (or net lending/borrowing) is the net operating balance less net capital investment. Thus, the fiscal balance includes the impact of net expenditure (effectively purchases less sales) on non-financial assets rather than consumption (depreciation) of non-financial assets.[2]

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

2 The net operating balance includes consumption of non-financial assets because depreciation is an expense. Depreciation also forms part of net capital investment, which (in the calculation of fiscal balance) offsets the inclusion of depreciation in the net operating balance.

Balance sheet

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

Net worth

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

Net financial worth

Net financial worth measures a government's net holdings of financial assets. It is calculated from the balance sheet as financial assets minus liabilities. This differs from the ABS GFS definition of net financial worth for the PNFC and PFC sectors, defined as financial assets, less liabilities, less shares, less other contributed capital. Net financial worth is a broader measure than net debt, in that it incorporates provisions made (such as superannuation) as well as holdings of equity. Net financial worth includes all classes of financial assets and all liabilities, only some of which are included in net debt. As non-financial assets are excluded from net financial worth, this is a narrower measure than net worth. However, it avoids the concerns inherent with the net worth measure relating to the valuation of non-financial assets and their availability to offset liabilities.

Net financial liabilities

Net financial liabilities comprises total liabilities less financial assets but excludes equity investments in the other sectors of the jurisdiction. Net financial liabilities is a more accurate indicator than net debt of a jurisdiction's fiscal position as it includes substantial non-debt liabilities such as accrued superannuation and long service leave entitlements. Excluding the net worth of other sectors of government results in a purer measure of financial worth than net financial worth, as, in general, the net worth of other sectors of government, in particular the PNFC sector, is backed up by physical assets.

Net debt

Net debt is the sum of selected financial liabilities (deposits held, advances received, government securities, loans and other borrowing) less the sum of selected financial assets[3] (cash and deposits, advances paid, and investments, loans and placements). This includes financial assets held by the Future Fund which are invested in these asset

3 Financial assets are defined as cash, an equity instrument of another entity, a contractual right to receive cash or financial asset, and a contract that will or may be settled in the entity's own equity instruments.

classes, including term deposits and investments in collective investment vehicles. Net debt does not include superannuation related liabilities. Net debt is a common measure of the strength of a government's financial position. High levels of net debt impose a call on future revenue flows to service that debt.

Cash flow statement

The cash flow statement identifies how cash is generated and applied in a single accounting period. The cash flow statement reflects a cash basis of recording (rather than an accrual basis) where information is derived indirectly from underlying accrual transactions and movements in balances. This, in effect, means that transactions are captured when cash is received or when cash payments are made. Cash transactions are specifically identified because cash management is considered an integral function of accrual budgeting.

Underlying cash balance

The underlying cash balance plus net Future Fund earnings (ABS GFS cash surplus/deficit) is the cash counterpart of the fiscal balance, reflecting the Australian Government's cash investment-saving balance. For the GGS, the underlying cash balance is calculated as shown below:

Net cash flows from operating activities
plus
Net cash flows from investments in non-financial assets
less
Net acquisitions of assets acquired under finance leases and similar arrangements[4]
equals
ABS GFS cash surplus/deficit
less
Net Future Fund earnings
equals
Underlying cash balance

The Government has excluded net Future Fund earnings from the calculations of the underlying cash balance. Prior to the 2012-13 MYEFO, the underlying cash balance only excluded the gross earnings of the Future Fund. Under the *Future Fund Act 2006*, earnings are required to be reinvested to meet the Government's future public sector superannuation liabilities. The Future Fund becomes available to meet the Government's superannuation liabilities from 2020.

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4 The underlying cash balance treats the acquisition and disposal of non-financial assets in the same manner regardless of whether they occur by purchase/sale or finance lease — acquisitions reduce the underlying cash balance and disposals increase the underlying cash balance. However, finance leases do not generate cash flows at the time of acquisition or disposal equivalent to the value of the asset. As such, net acquisitions of assets under finance leases are not shown in the body of the cash flow statement but are reported as a supplementary item for the calculation of the underlying cash balance.

In contrast, net Future Fund earnings are included in the fiscal balance because superannuation expenses relating to future cash payments are recorded in the fiscal balance.

Net Future Fund earnings are separately identified in the Australian Government GGS cash flow statement in Table B3 of this statement and related tables in Part 3 and Appendix D.

Headline cash balance

The headline cash balance is calculated by adding net cash flows from investments in financial assets for policy purposes and net Future Fund earnings to the underlying cash balance.

Cash flows from investments in financial assets for policy purposes include equity transactions and net advances.[5] Equity transactions include equity injections into controlled businesses and privatisations of government businesses. Net advances include net loans to the States, net loans to students under the Higher Education Loan Program (HELP), and contributions to international organisations that increase the Australian Government's financial assets.

Sectoral classifications

To assist in analysing the public sector, data is presented by institutional sector as shown in Figure B1. ABS GFS defines the GGS and the PNFC and PFC sectors. AASB 1049 has also adopted this sectoral reporting.

5 Cash flows from investments in financial assets for policy purposes were called net advances under the cash budgeting framework.

Figure B1: Institutional structure of the public sector

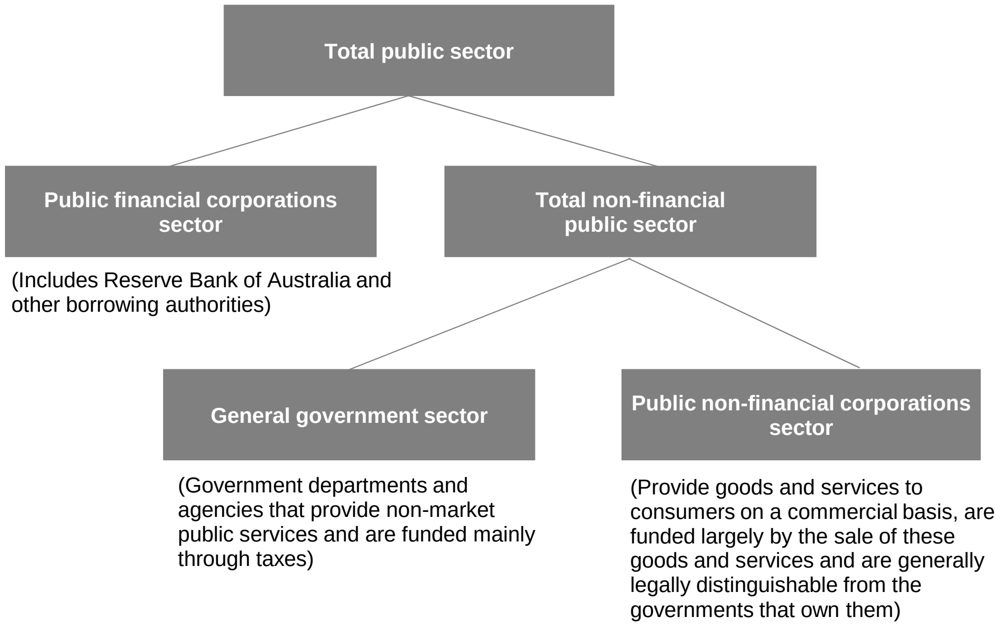

Table B10: Entities within the sectoral classifications

General government sector entities
Agriculture Portfolio Australian Fisheries Management Authority, Australian Pesticides and Veterinary Medicines Authority, Cotton Research and Development Corporation, Department of Agriculture, Fisheries Research and Development Corporation, Grains Research and Development Corporation, Grape and Wine Research and Development Corporation, Rural Industries Research and Development Corporation, Wine Australia Corporation
Attorney-General's Portfolio Administrative Appeals Tribunal, Attorney-General's Department, Australia Business Arts Foundation Ltd, Australian Commission for Law Enforcement Integrity, Australia Council, Australian Crime Commission, Australian Federal Police, Australian Film, Television and Radio School, Australian Financial Security Authority, Australian Human Rights Commission, Australian Institute of Criminology, Australian Law Reform Commission, Australian National Maritime Museum, Australian Security Intelligence Organisation, Australian Transaction Reports and Analysis Centre, Bundanon Trust, CrimTrac Agency, Family Court and Federal Circuit Court, Federal Court of Australia, High Court of Australia, National Archives of Australia, National Film and Sound Archive of Australia, National Gallery of Australia, National Library of Australia, National Museum of Australia, National Native Title Tribunal, National Portrait Gallery of Australia, Office of the Australian Information Commissioner, Office of the Director of Public Prosecutions, Office of Parliamentary Counsel, Old Parliament House, Screen Australia
Communications Portfolio Australian Broadcasting Corporation, Australian Communications and Media Authority, Department of Communications, Special Broadcasting Service Corporation, Telecommunications Universal Service Management Agency
Defence Portfolio AAF Company, Army and Air Force Canteen Service, Australian Military Forces Relief Trust Fund, Australian Strategic Policy Institute Limited, Australian War Memorial, Defence Housing Australia, Defence Materiel Organisation, Department of Defence, Department of Veterans' Affairs, RAAF Welfare Recreational Company, Royal Australian Air Force Veterans' Residences Trust Fund, Royal Australian Air Force Welfare Trust Fund, Royal Australian Navy Central Canteens Board, Royal Australian Navy Relief Trust Fund

Table B10: Entities within the sectoral classifications (continued)

General government sector entities (continued)
Education Portfolio Australian Curriculum, Assessment and Reporting Authority, Australian Institute for Teaching and School Leadership Limited, Australian Research Council, Department of Education, Tertiary Education Quality and Standards Agency
Employment Portfolio Asbestos Safety and Eradication Agency, Comcare, Department of Employment, Fair Work Commission, Office of the Fair Work Building Industry Inspectorate (Fair Work Building and Construction), Office of the Fair Work Ombudsman, Safe Work Australia, Seafarers Safety, Rehabilitation and Compensation Authority (Seacare Authority), Workplace Gender Equality Agency
Environment Portfolio Bureau of Meteorology, Clean Energy Regulator, Climate Change Authority, Department of Environment, Director of National Parks, Great Barrier Reef Marine Park Authority, Low Carbon Australia Limited, Murray-Darling Basin Authority, National Water Commission, Sydney Harbour Federation Trust
Finance Portfolio Australian Electoral Commission, Commonwealth Superannuation Corporation, ComSuper, Department of Finance, Future Fund Management Agency
Foreign Affairs and Trade Portfolio Australian Centre for International Agricultural Research, Australian Secret Intelligence Service, Australian Trade Commission, Department of Foreign Affairs and Trade, Export Finance and Insurance Corporation National Interest Account, Tourism Australia
Health Portfolio Australian Commission on Safety and Quality in Health Care, Australian Institute of Health and Welfare, Australian National Preventative Health Agency, Australian Organ and Tissue Donation and Transplantation Authority, Australian Radiation Protection and Nuclear Safety Agency, Australian Sports Anti-Doping Authority, Australian Sports Commission, Australian Sports Foundation Limited, Cancer Australia, Department of Health, Food Standards Australia New Zealand, General Practice Education and Training Limited, Health Workforce Australia, Independent Hospital Pricing Authority, National Blood Authority, National Health Funding Body, National Health and Medical Research Council, National Health Performance Authority, National Mental Health Commission, Private Health Insurance Administration Council, Private Health Insurance Ombudsman, Professional Services Review

Table B10: Entities within the sectoral classifications (continued)

General government sector entities (continued)
Immigration and Border Protection Portfolio Australian Customs and Border Protection Service, Department of Immigration and Border Protection, Migration Review Tribunal and Refugee Review Tribunal
Industry Portfolio Australian Institute of Marine Science, Australian Nuclear Science and Technology Organisation, Australian Renewable Energy Agency, Australian Skills Quality Authority (National Vocational Education and Training Regulator), Commonwealth Scientific and Industrial Research Organisation, Department of Industry, Geoscience Australia, IIF Investments Pty Limited, IP Australia, National Offshore Petroleum Safety and Environmental Management Authority
Infrastructure and Regional Development Portfolio Australian Maritime Safety Authority, Australian Transport Safety Bureau, Civil Aviation Safety Authority, Department of Infrastructure and Regional Development, National Capital Authority, National Transport Commission
Prime Minister and Cabinet Portfolio Aboriginal Hostels Limited, Anindilyakwa Land Council, Australian Institute of Aboriginal and Torres Strait Islander Studies, Australian National Audit Office, Australian Public Service Commission, Central Land Council, Department of the Prime Minister and Cabinet, Indigenous Business Australia, Indigenous Land Corporation, National Australia Day Council Limited, Northern Land Council, Office of the Commonwealth Ombudsman, Office of the Inspector-General of Intelligence and Security, Office of National Assessments, Office of the Official Secretary to the Governor-General, Outback Stores Pty Ltd, Tiwi Land Council, Torres Strait Regional Authority, Wreck Bay Aboriginal Community Council

Table B10: Entities within the sectoral classifications (continued)

General government sector entities (continued)
Social Services Portfolio Aged Care Standards and Accreditation Agency Ltd, Australian Institute of Family Studies, Department of Human Services, Department of Social Services, National Disability Insurance Agency
Treasury Portfolio Australian Bureau of Statistics, Australian Competition and Consumer Commission, Australian Office of Financial Management, Australian Prudential Regulation Authority, Australian Securities and Investments Commission, Australian Taxation Office, Clean Energy Finance Corporation, Commonwealth Grants Commission, Corporations and Markets Advisory Committee, Department of the Treasury, Inspector-General of Taxation, National Competition Council, Office of the Auditing and Assurance Standards Board, Office of the Australian Accounting Standards Board, Productivity Commission, Royal Australian Mint
Parliamentary Departments Department of Parliamentary Services, Department of the House of Representatives, Department of the Senate, Parliamentary Budget Office
Public financial corporations
Employment Portfolio Coal Mining Industry (Long Service Leave Funding) Corporation
Finance and Portfolio Medibank Private Ltd
Foreign Affairs and Trade Portfolio Export Finance and Insurance Corporation
Treasury Portfolio Australia Reinsurance Pool Corporation, Reserve Bank of Australia

Table B10: Entities within the sectoral classifications (continued)

Public non-financial corporations
Attorney-General's Portfolio Australian Government Solicitor
Communications Portfolio Australian Postal Corporation, NBN Co Ltd
Finance Portfolio Albury-Wodonga Development Corporation, ASC Pty Ltd, Australian River Co. Ltd
Infrastructure and Regional Development Portfolio Airservices Australia, Australian Rail Track Corporation Ltd, Moorebank Intermodal Company Ltd
Prime Minister and Cabinet Portfolio Voyages Indigenous Tourism Australia Pty Ltd
Social Services Portfolio Australian Hearing Services

Differences between ABS GFS and AAS framework

AASB 1049 has adopted the AAS conceptual framework and principles for the recognition of assets, liabilities, revenues and expenses and their presentation, measurement and disclosure. In addition, AASB 1049 has broadly adopted the ABS GFS conceptual framework for presenting government financial statements. In particular, AASB 1049 requires the GGS to prepare a separate set of financial statements, over-riding AASB 127 *Consolidated and Separate Financial Statements*. AASB 1049 also follows ABS GFS by requiring changes in net worth to be split into either transactions or 'other economic flows' and for this to be presented in a single operating statement. AASB 1049 is therefore broadly consistent with international statistical standards and the International Monetary Fund's (IMF) *Government Finance Statistics Manual 2001*.[6]

6 Additional information on the Australian accrual GFS framework is available in the ABS publication *Australian System of Government Finance Statistics: Concepts, Sources and Methods, 2005* (cat. no. 5514.0).

Some of the major differences between AAS and the ABS GFS treatments of transactions are outlined in Table B11. Further information on the differences between the two systems is provided in the ABS publication *Australian System of Government Finance Statistics: Concepts, Sources and Methods, 2005* (cat. no. 5514.0).

Table B11: Major differences between AAS and ABS GFS

Issue	AAS treatment	ABS GFS treatment	Treatment adopted
Acquisition of defence weapons platforms (DWP)	Treated as capital expenditure. DWP appear as a non-financial asset on the balance sheet. Depreciation expense on assets is recorded in the operating statement. AASB 1049 requires cost to be used where fair value of the assets cannot be reliably measured.	ABS has updated its treatment in its GFS reports to record DWP as a non-financial asset on a market value basis. This represents an early adoption of changes to the System of National Accounts.	AAS
Circulating coins — seigniorage	The profit between the cost and sale of circulating coins (seigniorage) is treated as revenue.	Circulating coin is treated as a liability, and the cost of producing the coins is treated as an expense.	AAS
Provisions for bad and doubtful debts	Reported in the balance sheet as an offset to assets. Under AASB 1049, it is included in the operating statement as other economic flows.	Creating provisions for bad and doubtful debts is not considered an economic event and is therefore not considered to be an expense or reflected in the balance sheet.	AAS
Advances to the International Development Association and Asian Development Fund	Recorded at fair value in the balance sheet.	Recorded at nominal value in balance sheet.	ABS GFS
Concessional loans	Discounts concessional loans by a market rate of a similar instrument.	Does not discount concessional loans as no secondary market is considered to exist.	AAS
Investment in other public sector entities	Valued at fair value in the balance sheet as long as it can be reliably measured, otherwise net assets is permissible.	Unlisted entities valued based on their net assets in the balance sheet.	AAS
Provision for restoration, decommis-sioning and make-good	Included in the fiscal balance capital adjustment.	Excluded from the calculation of net lending capital adjustment.	AAS
Renewable Energy Certificates (RECs)	The issuance and registration of such certificates are considered to be an administrative function and does not result in the recognition of an asset or liability and therefore no revenue or expense is recognised.	The issuance and registration of such certificates are considered to be government financial transactions resulting in the recognition of assets, liabilities, revenue and expenses.	AAS

Issue	AAS treatment	ABS GFS treatment	Treatment adopted
Carbon tax	The issuance and surrender of free carbon units and ACCUs used in the settlement of emissions liabilities are not recognised.	This issuance and surrender of free carbon units and ACCUs used in the settlement of emissions' liabilities are treated as expenses and revenues respectively.	ABS GFS
Dividends paid by public corporations	Treated as an equity distribution. Equity distributions are treated as a distribution of profits, as opposed to an expense.	Dividends are treated as an expense.	ABS GFS
Commercial tax effect accounting assets and liabilities	Corporations in the PNFC and PFC sectors record tax expenses on a commercial basis.	Deferred tax assets and liabilities are reversed so that corporations record tax expenses on a consistent basis to the Australian Taxation Office.	ABS GFS
Issue	**AAS treatment**	**ABS GFS treatment**	**Treatment adopted**
Fiscal aggregates differences			
Finance leases	Does not deduct finance leases in the derivation of the cash surplus/deficit.	Deducts finance leases in the derivation of the cash surplus/deficit.	Both are disclosed
Net worth of PNFC and PFC sectors	Calculated as assets less liabilities.	Calculated as assets less liabilities less shares and other contributed capital.	AAS
Classification difference			
Prepayments	Treated as a non-financial asset.	Treated as a financial asset.	ABS GFS
Spectrum sales	Recognise non-financial asset sales for fiscal balance when licences are transferred, which may be after the auction of licences, as this is regarded as the point control is transferred. Recognise cash at the time of receipt.	Recognise non-financial asset sales for fiscal balance at time of auction as this is regarded as the point control is transferred. Recognise cash at the time of receipt	AAS

Attachment B

AUSTRALIAN LOAN COUNCIL ALLOCATION

Under the Loan Council arrangements, every year the Commonwealth and each State and Territory government nominate a Loan Council Allocation (LCA). A jurisdiction's LCA incorporates:

- the estimated non-financial public sector ABS GFS cash surplus/deficit (made up from the balances of the general government (GGS) and public non-financial corporations (PNFC) sectors and total non-financial public sector (NFPS) acquisitions under finance leases and similar arrangements);
- net cash flows from investments in financial assets for policy purposes; and
- memorandum items, which involve transactions that are not formally borrowings but nevertheless have many of the characteristics of borrowings.

LCA nominations are considered by the Loan Council, having regard to each jurisdiction's fiscal position and infrastructure requirements, as well as the macroeconomic implications of the aggregate figure.

As set out in Table B12, the Commonwealth's revised estimate for the 2013-14 LCA is a \$54.4 billion deficit, which is a deterioration of \$25.4 billion from the LCA deficit of \$29.0 billion at the 2013-14 Budget. The revised LCA estimate falls outside the tolerance limit set at Budget. This change primarily reflects write-downs in tax receipts as well as resolving legacy issues from the former Government.

Table B12: 2013-14 Commonwealth Loan Council Allocation

		Budget estimate	MYEFO estimate
		\$m	\$m
	GGS cash surplus(-)/deficit(+)	14,736	43,650
	PNFC sector cash surplus(-)/deficit(+)	4,862	3,641
	NFPS cash surplus(-)/deficit(+)(a)	19,599	47,291
plus	Acquisitions under finance leases and similar arrangements	469	469
equals	ABS GFS cash surplus(-)/deficit(+)	20,067	47,759
minus	Net cash flows from investments in financial assets for policy purposes(b)	-10,073	-7,522
plus	Memorandum items(c)	-1,121	-870
	Loan Council Allocation	**29,019**	**54,412**

(a) May not directly equate to the sum of the GGS and the PNFC sector due to inter-sectoral transfers which are netted out.

(b) Net cash flows from investments in financial assets for policy purposes are displayed with the same sign as they are reported in cash flow statements. Such transactions involve the transfer or exchange of a financial asset and are not included within the cash surplus/deficit. However, the cash flow from investments in financial assets for policy purposes has implications for a government's call on financial markets.

(c) For the Commonwealth's LCA outcome, memorandum items include the change in net present value (NPV) of operating leases (with NPV greater than \$5 million) and the over-funding of superannuation and the net financing requirement of the Australian National University.