

APPENDIX B: AUSTRALIAN GOVERNMENT BUDGET FINANCIAL STATEMENTS

Consistent with the *Charter of Budget Honesty Act 1998* (the Charter), the Government has produced a single set of financial statements for the Australian Government general government sector (GGS), the public non-financial corporations (PNFC) sector and the total non-financial public sector (NFPS). The financial statements comply with both Australian Bureau of Statistics' (ABS) accrual Government Finance Statistics (GFS) and Australian Accounting Standards (AAS), with departures disclosed. These statements are:

- an operating statement, including other economic flows, which shows net operating balance and net lending/borrowing (fiscal balance);
- 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.

The statements reflect the 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 appendix also contains an update of the Australian Loan Council Allocation.

AUSTRALIAN GOVERNMENT FINANCIAL STATEMENTS

Table B1: Australian Government general government sector operating statement

	Note	Estimates		Projections	
		2014-15 \$m	2015-16 \$m	2016-17 \$m	2017-18 \$m
Revenue					
Taxation revenue	3	361,959	387,249	413,821	440,468
Sales of goods and services	4	9,190	9,258	11,453	16,070
Interest income	5	3,987	4,672	5,031	5,322
Dividend income	5	3,396	3,170	3,644	4,113
Other	6	7,344	7,333	7,087	7,200
Total revenue		385,876	411,682	441,036	473,174
Expenses					
Gross operating expenses					
Wages and salaries(a)	7	19,221	19,744	19,901	20,183
Superannuation	7	6,777	4,340	4,275	4,305
Depreciation and amortisation	8	6,787	6,962	7,218	7,401
Supply of goods and services	9	80,809	81,665	84,059	87,776
Other operating expenses(a)	7	5,472	5,367	5,477	5,583
<i>Total gross operating expenses</i>		<i>119,067</i>	<i>118,078</i>	<i>120,931</i>	<i>125,248</i>
Superannuation interest expense	7	8,989	9,630	9,979	10,333
Interest expenses	10	16,387	17,871	19,239	19,925
Current transfers					
Current grants	11	124,201	129,562	137,552	149,279
Subsidy expenses		12,200	12,517	13,330	13,814
Personal benefits	12	131,506	136,183	141,501	146,375
<i>Total current transfers</i>		<i>267,907</i>	<i>278,262</i>	<i>292,383</i>	<i>309,468</i>
Capital transfers					
Mutually agreed write-downs		2,564	2,689	2,906	3,110
Other capital grants		7,984	9,953	10,658	7,227
<i>Total capital transfers</i>		<i>10,548</i>	<i>12,642</i>	<i>13,565</i>	<i>10,337</i>
Total expenses		422,898	436,484	456,097	475,310
Net operating balance		-37,022	-24,801	-15,060	-2,136
Other economic flows - included in operating result					
Net write-downs of assets					
(including bad and doubtful debts)		-6,154	-7,983	-8,514	-9,344
Assets recognised for the first time		321	336	353	364
Liabilities recognised for the first time		0	0	0	0
Actuarial revaluations		0	0	0	0
Net foreign exchange gains		28	46	100	107
Net swap interest received		-170	0	0	0
Market valuation of debt		-5,344	2,183	1,818	1,464
Other gains/(losses)		13,446	5,657	3,951	6,658
Total other economic flows - included in operating result		2,127	240	-2,293	-751
Operating result(b)		-34,894	-24,562	-17,353	-2,887
Non-owner movements in equity					
Revaluation of equity investments		-2,140	0	0	0
Actuarial revaluations		206	211	368	199
Other economic revaluations		-3,243	320	1,188	216
Total other economic flows - included in equity		-5,177	531	1,556	416
Comprehensive result - Total change in net worth		-40,071	-24,031	-15,798	-2,472

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

	Note	Estimates		Projections	
		2014-15 \$m	2015-16 \$m	2016-17 \$m	2017-18 \$m
Net operating balance		-37,022	-24,801	-15,060	-2,136
Net acquisition of non-financial assets					
Purchases of non-financial assets		11,222	10,528	9,832	11,545
<i>less</i> Sales of non-financial assets		2,317	1,353	208	1,668
<i>less</i> Depreciation		6,787	6,962	7,218	7,401
<i>plus</i> Change in inventories		471	454	428	417
<i>plus</i> Other movements in non-financial assets		195	-244	-116	6
Total net acquisition of non-financial assets		2,784	2,422	2,718	2,899
Fiscal balance (Net lending/borrowing)(c)		-39,806	-27,223	-17,778	-5,035

(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

	Note	Estimates		Projections	
		2014-15 \$m	2015-16 \$m	2016-17 \$m	2017-18 \$m
Assets					
Financial assets					
Cash and deposits	19(a)	3,825	4,163	3,799	4,404
Advances paid	13	46,208	52,854	61,928	70,785
Investments, loans and placements	14	130,197	134,782	148,537	151,097
Other receivables	13	46,024	49,145	52,622	56,190
Equity investments					
Investments in other public sector entities		35,478	42,348	49,558	52,153
Equity accounted investments		327	332	331	334
Investments - shares		41,724	45,061	48,904	52,352
Total financial assets		303,784	328,685	365,679	387,315
Non-financial assets					
Land	15	9,299	9,275	9,281	9,209
Buildings		26,125	26,830	27,423	28,266
Plant, equipment and infrastructure		56,518	58,964	60,563	62,955
Inventories		8,337	8,289	8,280	8,225
Intangibles		6,359	6,400	6,357	6,796
Investment properties		198	213	218	223
Biological assets		36	36	36	36
Heritage and cultural assets		10,842	10,854	10,868	10,882
Assets held for sale		133	95	95	95
Other non-financial assets		604	360	244	250
Total non-financial assets		118,450	121,316	123,364	126,936
Total assets		422,234	450,001	489,042	514,250
Liabilities					
Interest bearing liabilities					
Deposits held		211	211	211	211
Government securities		409,609	456,734	504,139	527,633
Loans	16	13,693	13,004	12,957	12,927
Other borrowing		1,553	1,424	1,340	1,280
Total interest bearing liabilities		425,066	471,373	518,647	542,050
Provisions and payables					
Superannuation liability	17	163,240	169,332	175,275	181,334
Other employee liabilities	17	15,977	16,054	16,368	16,732
Suppliers payable	18	4,905	4,860	4,835	4,958
Personal benefits provisions and payables	18	13,234	12,808	12,484	11,897
Subsidies provisions and payables	18	4,397	4,592	4,754	4,797
Grants provisions and payables	18	11,671	9,420	10,485	9,942
Other provisions and payables	18	13,225	15,075	15,503	14,321
Total provisions and payables		226,649	232,140	239,704	243,981
Total liabilities		651,715	703,512	758,351	786,031
Net worth(a)		-229,481	-253,511	-269,309	-271,781
<i>Net financial worth(b)</i>		<i>-347,931</i>	<i>-374,827</i>	<i>-392,673</i>	<i>-398,716</i>
<i>Net financial liabilities(c)</i>		<i>383,409</i>	<i>417,175</i>	<i>442,230</i>	<i>450,870</i>
<i>Net debt(d)</i>		<i>244,836</i>	<i>279,574</i>	<i>304,383</i>	<i>315,764</i>

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

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

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

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

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

	Estimates		Projections	
	2014-15 \$m	2015-16 \$m	2016-17 \$m	2017-18 \$m
Cash receipts from operating activities				
Taxes received	353,594	376,604	402,792	428,579
Receipts from sales of goods and services	9,114	9,202	11,379	16,004
Interest receipts	3,469	4,022	3,950	3,976
Dividends and income tax equivalents	3,831	3,407	3,367	3,838
Other receipts	7,261	7,432	7,532	7,173
Total operating receipts	377,269	400,666	429,021	459,570
Cash payments for operating activities				
Payments for employees	-26,691	-27,607	-27,829	-28,555
Payments for goods and services	-80,557	-81,548	-83,966	-87,198
Grants and subsidies paid	-146,215	-153,880	-161,230	-170,599
Interest paid	-14,221	-15,354	-16,007	-16,676
Personal benefit payments	-132,142	-137,326	-142,546	-147,675
Other payments	-5,280	-5,013	-5,059	-5,094
Total operating payments	-405,106	-420,729	-436,636	-455,796
Net cash flows from operating activities	-27,837	-20,063	-7,616	3,774
Cash flows from investments in non-financial assets				
Sales of non-financial assets	2,215	2,696	208	235
Purchases of non-financial assets	-11,420	-10,348	-9,783	-11,566
Net cash flows from investments in non-financial assets	-9,205	-7,652	-9,576	-11,330
Net cash flows from investments in financial assets for policy purposes	-6,821	-14,217	-17,053	-14,101
Cash flows from investments in financial assets for liquidity purposes				
Increase in investments	-7,736	-5,371	-13,579	-1,136
Net cash flows from investments in financial assets for liquidity purposes	-7,736	-5,371	-13,579	-1,136
Cash receipts from financing activities				
Borrowing	53,855	50,305	50,839	27,171
Other financing	0	12	0	0
Total cash receipts from financing activities	53,855	50,317	50,839	27,171
Cash payments for financing activities				
Borrowing	0	0	0	0
Other financing	-2,275	-2,677	-3,380	-3,772
Total cash payments for financing activities	-2,275	-2,677	-3,380	-3,772
Net cash flows from financing activities	51,580	47,640	47,459	23,398
Net increase/(decrease) in cash held	-19	337	-364	605

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

	Estimates		Projections	
	2014-15 \$m	2015-16 \$m	2016-17 \$m	2017-18 \$m
Net cash flows from operating activities and investments in non-financial assets (surplus(+)/deficit(-))	-37,042	-27,714	-17,191	-7,556
Finance leases and similar arrangements(b)	0	-2	0	0
GFS cash surplus(+)/deficit(-)	-37,042	-27,716	-17,191	-7,556
less Net Future Fund earnings	3,319	3,523	3,653	3,924
Equals underlying cash balance(c)	-40,362	-31,239	-20,844	-11,480
plus Net cash flows from investments in financial assets for policy purposes	-6,821	-14,217	-17,053	-14,101
plus Net Future Fund earnings	3,319	3,523	3,653	3,924
Equals headline cash balance	-43,863	-41,933	-34,244	-21,657

(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
	2014-15
	\$m
Revenue	
Current grants and subsidies	39
Sales of goods and services	9,623
Interest income	35
Other	11
Total revenue	9,708
Expenses	
Gross operating expenses	
Wages and salaries(a)	3,651
Superannuation	461
Depreciation and amortisation	1,262
Supply of goods and services	5,086
Other operating expenses(a)	743
<i>Total gross operating expenses</i>	<i>11,204</i>
Interest expenses	456
Other property expenses	20
Current transfers	
Tax expenses	44
<i>Total current transfers</i>	<i>44</i>
Total expenses	11,723
Net operating balance	-2,016
Other economic flows	-384
Comprehensive result - Total change in net worth excluding contribution from owners	-2,399
Net acquisition of non-financial assets	
Purchases of non-financial assets	4,047
<i>less</i> Sales of non-financial assets	<i>37</i>
<i>less</i> Depreciation	<i>1,262</i>
<i>plus</i> Change in inventories	<i>10</i>
<i>plus</i> Other movements in non-financial assets	<i>1,105</i>
Total net acquisition of non-financial assets	3,863
Fiscal balance (Net lending/borrowing)(b)	-5,878

(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
	2014-15
	\$m
Assets	
Financial assets	
Cash and deposits	1,531
Investments, loans and placements	192
Other receivables	1,730
Equity investments	9
<i>Total financial assets</i>	<i>3,463</i>
Non-financial assets	
Land and fixed assets	19,331
Other non-financial assets(a)	3,577
<i>Total non-financial assets</i>	<i>22,907</i>
Total assets	26,371
Liabilities	
Interest bearing liabilities	
Loans	2,704
Other borrowing	3,948
<i>Total interest bearing liabilities</i>	<i>6,652</i>
Provisions and payables	
Superannuation liability	3
Other employee liabilities	1,413
Other provisions and payables(a)	3,303
<i>Total provisions and payables</i>	<i>4,719</i>
Total liabilities	11,371
Shares and other contributed capital	15,000
Net worth(b)	15,000
<i>Net financial worth(c)</i>	<i>-7,908</i>
<i>Net debt(d)</i>	<i>4,928</i>

(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
	2014-15
	\$m
Cash receipts from operating activities	
Receipts from sales of goods and services	10,425
GST input credit receipts	-6
Other receipts	102
Total operating receipts	10,521
Cash payments for operating activities	
Payments to employees	-4,294
Payment for goods and services	-5,742
Interest paid	-83
GST payments to taxation authority	-411
Other payments	-229
Total operating payments	-10,758
Net cash flows from operating activities	-238
Cash flows from investments in non-financial assets	
Sales of non-financial assets	38
Purchases of non-financial assets	-5,150
Net cash flows from investments in non-financial assets	-5,112
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	-10
Net cash flows from investments in financial assets for liquidity purposes	-10
Net cash flows from financing activities	
Borrowing (net)	134
Other financing (net)	5,459
Distribution paid (net)	-82
Net cash flows from financing activities	5,511
Net increase/(decrease) in cash held	151
Cash at the beginning of the year	1,380
Cash at the end of the year	1,531
Net cash from operating activities and investments in non-financial assets	-5,350
Distributions paid	-82
Equals surplus(+)/deficit(-)	-5,432
Finance leases and similar arrangements(b)	0
GFS cash surplus(+)/deficit(-)	-5,432

(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
	2014-15
	\$m
Revenue	
Taxation revenue	361,915
Sales of goods and services	17,400
Interest income	4,004
Dividend income	3,376
Other	7,355
Total revenue	394,050
Expenses	
Gross operating expenses	
Wages and salaries(a)	22,873
Superannuation	7,239
Depreciation and amortisation	8,049
Supply of goods and services	84,482
Other operating expenses(a)	6,215
<i>Total gross operating expenses</i>	<i>128,857</i>
Superannuation interest expense	8,989
Interest expenses	16,824
Current transfers	
Current grants	124,201
Subsidy expenses	12,161
Personal benefits	131,506
<i>Total current transfers</i>	<i>267,868</i>
Capital transfers	10,548
Total expenses	433,087
Net operating balance	-39,037
Other economic flows	-1,324
Comprehensive result - Total change in net worth	-40,361
Net acquisition of non-financial assets	
Purchases of non-financial assets	15,268
<i>less</i> Sales of non-financial assets	<i>2,354</i>
<i>less</i> Depreciation	<i>8,049</i>
<i>plus</i> Change in inventories	<i>481</i>
<i>plus</i> Other movements in non-financial assets	<i>1,300</i>
Total net acquisition of non-financial assets	6,647
Fiscal balance (net lending/borrowing)(b)	-45,684

(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
	2014-15
	\$m
Assets	
Financial assets	
Cash and deposits	5,356
Advances paid	46,208
Investments, loans and placements	130,071
Other receivables	47,619
Equity investments	61,721
<i>Total financial assets</i>	<i>290,974</i>
Non-financial assets	
Land and fixed assets	130,453
Other non-financial assets	10,905
<i>Total non-financial assets</i>	<i>141,358</i>
Total assets	432,332
Liabilities	
Interest bearing liabilities	
Deposits held	211
Government securities	409,609
Loans	16,078
Other borrowing	5,501
<i>Total interest bearing liabilities</i>	<i>431,399</i>
Provisions and payables	
Superannuation liability	163,243
Other employee liabilities	17,391
Other provisions and payables	50,599
<i>Total provisions and payables</i>	<i>231,232</i>
Total liabilities	662,631
Shares and other contributed capital	15,000
Net worth(a)	-230,299
<i>Net financial worth(b)</i>	<i>-371,657</i>
<i>Net debt(c)</i>	<i>249,765</i>

(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
	2014-15
	\$m
Cash receipts from operating activities	
Taxes received	353,397
Receipts from sales of goods and services	17,259
Interest receipts	3,485
Dividends and income tax equivalents	3,749
Other receipts	7,329
Total operating receipts	385,218
Cash payments for operating activities	
Payments to employees	-30,984
Payments for goods and services	-84,436
Grants and subsidies paid	-146,215
Interest paid	-14,285
Personal benefit payments	-132,142
Other payments	-5,312
Total operating payments	-413,375
Net cash flows from operating activities	-28,157
Cash flows from investments in non-financial assets	
Sales of non-financial assets	2,252
Purchases of non-financial assets	-16,570
Net cash flows from investments in non-financial assets	-14,318
Net cash flows from investments in financial assets for policy purposes	-1,342
Cash flows from investments in financial assets for liquidity purposes	
Increase in investments	-7,746
Net cash flows from investments in financial assets for liquidity purposes	-7,746
Net cash flows from financing activities	
Borrowing (net)	53,989
Other financing (net)	-2,295
Net cash flows from financing activities	51,694
Net increase/(decrease) in cash held	132
Cash at the beginning of the year	5,225
Cash at the end of the year	5,356
Net cash from operating activities and investments in non-financial assets	-42,474
Distributions paid	0
Equals surplus(+)/deficit(-)	-42,474
Finance leases and similar arrangements(b)	0
GFS cash surplus(+)/deficit(-)	-42,474

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

The financial statements have been prepared on 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. Detailed accounting policies, as well as a set of notes and other disclosures, 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.

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.

Appendix B: Australian Government Budget Financial Statements

AASB 1049 and the UFP 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).

Explanations of major variations in fiscal balance, revenue, expenses, net capital investment, cash flows, net debt, net financial worth and net worth since the 2014-15 Budget are disclosed in Part 3.

Updates to fiscal risks and contingent liabilities since the 2014-15 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 major differences between AAS and the ABS GFS treatments of transactions are outlined in Table B10.

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.

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 B10: 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 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 using the perpetual inventory method from September quarter 2009. 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 coins are 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 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, decommissioning 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 RECs is considered to be an administrative function and does not result in the recognition of assets or liabilities and, consequently, no revenues or expenses are recognised.	The issuance and registration of RECs is considered to be government financial transactions resulting in the recognition of assets, liabilities, revenue and expenses.	AAS
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

Table B10: Major differences between AAS and ABS GFS (continued)

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
Net financial worth of PNFC and PFC	Calculated as financial assets less total liabilities.	Calculated as financial assets less total liabilities less shares and 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 payment is made and the licences take effect, 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

Note 3: Taxation revenue by type

	Estimates		Projections	
	2014-15 \$m	2015-16 \$m	2016-17 \$m	2017-18 \$m
Individuals and other withholding taxes				
Gross income tax withholding	168,430	180,660	192,040	205,370
Gross other individuals	40,470	44,550	48,850	53,270
less Refunds	27,500	28,100	29,200	31,200
Total individuals and other withholding tax	181,400	197,110	211,690	227,440
Fringe benefits tax	4,480	5,030	5,260	5,100
Company tax	70,930	72,500	78,100	83,300
Superannuation fund taxes	7,130	9,760	10,860	11,560
Minerals resource rent tax(a)	60	0	0	0
Petroleum resource rent tax	1,770	1,700	1,680	1,650
Total income taxation revenue	265,770	286,100	307,590	329,050
Goods and services tax	56,820	60,390	63,510	66,950
Wine equalisation tax	810	840	880	910
Luxury car tax	400	360	380	400
Excise and customs duty				
Petrol	5,970	6,200	6,410	6,820
Diesel	8,960	9,370	9,750	10,180
Other fuel products	3,280	3,170	3,330	3,500
Tobacco	8,320	9,580	10,600	10,890
Beer	2,430	2,480	2,590	2,730
Spirits	1,970	2,030	2,130	2,240
Other alcoholic beverages(b)	950	990	1,040	1,090
Other customs duty				
Textiles, clothing and footwear	590	310	220	170
Passenger motor vehicles	800	520	510	530
Other imports	1,570	1,070	930	940
less Refunds and drawbacks	420	420	420	420
Total excise and customs duty	34,420	35,300	37,090	38,670
Carbon pricing mechanism	0	0	0	0
Agricultural levies	454	478	484	501
Other taxes	3,285	3,781	3,886	3,988
Mirror taxes	521	551	585	619
less Transfers to States in relation to mirror tax revenue	521	551	585	619
Mirror tax revenue	0	0	0	0
Total indirect taxation revenue	96,190	101,149	106,231	111,419
Total taxation revenue	361,959	387,249	413,821	440,468
<i>Memorandum:</i>				
Total excise	25,360	26,990	28,360	29,680
Total customs duty	9,060	8,310	8,730	8,990
Capital gains tax(c)	8,900	11,300	13,500	15,600
Medicare and DisabilityCare Australia levy	14,130	15,040	15,830	16,650

(a) Net revenue from the MRRT is expected to be around \$40 million in 2014-15 which represents 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 MRRT will not apply beyond 30 September 2014.

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

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

Appendix B: Australian Government Budget Financial Statements

Note 3(a): Taxation revenue by source

	Estimates		Projections	
	2014-15 \$m	2015-16 \$m	2016-17 \$m	2017-18 \$m
Taxes on income, profits and capital gains				
Income and capital gains levied on individuals	185,910	202,160	216,980	232,550
Income and capital gains levied on enterprises	79,860	83,940	90,610	96,500
Total taxes on income, profits and capital gains	265,770	286,100	307,590	329,050
Taxes on employers' payroll and labour force	738	760	755	757
Taxes on the provision of goods and services				
Sales/goods and services tax	58,030	61,590	64,770	68,260
Excises and levies	25,814	27,468	28,844	30,181
Taxes on international trade	9,060	8,310	8,730	8,990
Total taxes on the provision of goods and services	92,904	97,368	102,344	107,431
Other sale of goods and services	2,547	3,021	3,132	3,231
Total taxation revenue	361,959	387,249	413,821	440,468
<i>Memorandum:</i>				
<i>Medicare and DisabilityCare Australia levy</i>	<i>14,130</i>	<i>15,040</i>	<i>15,830</i>	<i>16,650</i>

Note 4: Sales of goods and services revenue

	Estimates		Projections	
	2014-15 \$m	2015-16 \$m	2016-17 \$m	2017-18 \$m
Sales of goods	1,591	1,650	1,858	1,927
Rendering of services	3,998	3,855	5,761	10,238
Operating lease rental	64	62	63	63
Fees from regulatory services	3,536	3,691	3,771	3,842
Total sales of goods and services revenue	9,190	9,258	11,453	16,070

Appendix B: Australian Government Budget Financial Statements

Note 5: Interest and dividend revenue

	Estimates		Projections	
	2014-15	2015-16	2016-17	2017-18
	\$m	\$m	\$m	\$m
Interest from other governments				
State and Territory debt	25	50	50	45
Housing agreements	134	129	124	119
Total interest from other governments	159	179	174	164
Interest from other sources				
Advances	50	56	62	102
Deposits	92	91	92	93
Bank deposits	148	135	138	143
Indexation of HELP receivable and other student loans	567	788	955	1,110
Other	2,972	3,422	3,609	3,711
Total interest from other sources	3,828	4,493	4,858	5,158
Total interest	3,987	4,672	5,031	5,322
Dividends				
Dividends from other public sector entities	438	700	969	1,232
Other dividends	2,957	2,470	2,675	2,881
Total dividends	3,396	3,170	3,644	4,113
Total interest and dividend revenue	7,383	7,842	8,675	9,435

Note 6: Other sources of non-taxation revenue

	Estimates		Projections	
	2014-15	2015-16	2016-17	2017-18
	\$m	\$m	\$m	\$m
Industry contributions	55	55	55	55
Royalties	1,548	1,524	1,547	1,463
Seigniorage	124	117	111	104
Other	5,616	5,637	5,375	5,579
Total other sources of non-taxation revenue	7,344	7,333	7,087	7,200

Appendix B: Australian Government Budget Financial Statements

Note 7: Employee and superannuation expense

	Estimates		Projections	
	2014-15	2015-16	2016-17	2017-18
	\$m	\$m	\$m	\$m
Wages and salaries expenses	19,221	19,744	19,901	20,183
Other operating expenses				
Leave and other entitlements	2,302	2,265	2,272	2,303
Separations and redundancies	280	54	50	49
Workers compensation premiums and claims	794	875	914	969
Other	2,095	2,173	2,241	2,262
Total other operating expenses	5,472	5,367	5,477	5,583
Superannuation expenses				
Superannuation	6,777	4,340	4,275	4,305
Superannuation interest cost	8,989	9,630	9,979	10,333
Total superannuation expenses	15,767	13,970	14,254	14,638
Total employee and superannuation expense	40,460	39,081	39,633	40,404

Note 8: Depreciation and amortisation expense

	Estimates		Projections	
	2014-15	2015-16	2016-17	2017-18
	\$m	\$m	\$m	\$m
Depreciation				
Specialist military equipment	3,053	3,202	3,484	3,695
Buildings	1,342	1,331	1,357	1,381
Other infrastructure, plant and equipment	1,455	1,454	1,421	1,422
Heritage and cultural assets	38	38	38	37
Total depreciation	5,889	6,025	6,300	6,536
Total amortisation	898	937	919	866
Total depreciation and amortisation expense	6,787	6,962	7,218	7,401

Note 9: Supply of goods and services expense

	Estimates		Projections	
	2014-15	2015-16	2016-17	2017-18
	\$m	\$m	\$m	\$m
Supply of goods and services	25,982	24,877	24,166	25,165
Operating lease rental expenses	2,534	2,507	2,545	2,578
Personal benefits - indirect	44,708	46,363	49,117	51,487
Health care payments	5,459	5,505	5,629	5,787
Other	2,126	2,413	2,602	2,760
Total supply of goods and services expense	80,809	81,665	84,059	87,776

Appendix B: Australian Government Budget Financial Statements

Note 10: Interest expense

	Estimates		Projections	
	2014-15	2015-16	2016-17	2017-18
	\$m	\$m	\$m	\$m
Interest on debt				
Government securities(a)	14,720	16,015	16,943	17,439
Loans	9	9	12	11
Other	528	526	522	523
Total interest on debt	15,258	16,550	17,477	17,973
Other financing costs	1,129	1,321	1,762	1,952
Total interest expense	16,387	17,871	19,239	19,925

(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	
	2014-15	2015-16	2016-17	2017-18
	\$m	\$m	\$m	\$m
Current grants expense				
State and Territory governments	94,660	99,403	105,035	109,875
Local governments	6	2	0	0
Private sector	1,383	950	713	645
Overseas	4,612	4,558	5,149	5,121
Non-profit organisations	2,467	2,916	2,723	3,125
Multi-jurisdictional sector	10,132	10,262	9,811	9,961
Other	10,940	11,470	14,121	20,551
Total current grants expense	124,201	129,562	137,552	149,279
Capital grants expense				
Mutually agreed write-downs	2,564	2,689	2,906	3,110
Other capital grants				
State and Territory governments	6,983	8,709	9,642	5,941
Local governments	445	665	332	332
Private sector	0	0	0	0
Multi-jurisdictional sector	102	104	99	101
Other	453	475	586	854
Total capital grants expense	10,548	12,642	13,565	10,337
Total grants expense	134,749	142,204	151,117	159,616

Appendix B: Australian Government Budget Financial Statements

Note 12: Personal benefits expense

	Estimates		Projections	
	2014-15	2015-16	2016-17	2017-18
	\$m	\$m	\$m	\$m
Social welfare - assistance to the aged	42,702	45,073	47,665	49,544
Assistance to veterans and dependants	6,038	5,837	5,669	5,454
Assistance to people with disabilities	24,578	25,576	26,761	27,996
Assistance to families with children	34,052	33,234	32,285	31,832
Assistance to the unemployed	10,808	10,761	10,784	10,508
Student assistance	3,604	3,153	3,212	3,304
Other welfare programmes	1,120	1,090	1,116	436
Financial and fiscal affairs	473	508	491	479
Vocational and industry training	169	95	84	92
Other	7,963	10,856	13,433	16,728
Total personal benefits expense	131,506	136,183	141,501	146,375

Note 13: Advances paid and other receivables

	Estimates		Projections	
	2014-15	2015-16	2016-17	2017-18
	\$m	\$m	\$m	\$m
Advances paid				
Loans to State and Territory governments	3,209	3,390	3,174	2,953
Higher Education Loan Program	30,622	36,675	43,872	51,952
Student Financial Supplement Scheme	553	505	460	411
Other	12,061	12,512	14,639	15,677
less Provision for doubtful debts	237	227	217	207
Total advances paid	46,208	52,854	61,928	70,785
Other receivables				
Goods and services receivable	806	778	781	780
Recoveries of benefit payments	3,799	3,961	4,114	4,231
Taxes receivable	20,866	23,177	25,438	27,896
Prepayments	3,146	3,304	3,470	3,587
Other	18,980	19,553	20,508	21,442
less Provision for doubtful debts	1,572	1,627	1,690	1,747
Total other receivables	46,024	49,145	52,622	56,190

Note 14: Investments, loans and placements

	Estimates		Projections	
	2014-15	2015-16	2016-17	2017-18
	\$m	\$m	\$m	\$m
Investments - deposits	32,706	28,438	33,979	28,545
IMF quota	11,001	11,064	11,217	11,370
Other	86,490	95,279	103,341	111,182
Total investments, loans and placements	130,197	134,782	148,537	151,097

Appendix B: Australian Government Budget Financial Statements

Note 15: Total non-financial assets

	Estimates		Projections	
	2014-15 \$m	2015-16 \$m	2016-17 \$m	2017-18 \$m
Land and buildings				
Land	9,299	9,275	9,281	9,209
Buildings	26,125	26,830	27,423	28,266
Total land and buildings	35,424	36,105	36,704	37,475
Plant, equipment and infrastructure				
Specialist military equipment	43,129	45,426	47,149	49,584
Other	13,389	13,539	13,414	13,371
Total plant, equipment and infrastructure	56,518	58,964	60,563	62,955
Inventories				
Inventories held for sale	1,380	1,503	1,582	1,637
Inventories not held for sale	6,957	6,786	6,698	6,588
Total inventories	8,337	8,289	8,280	8,225
Intangibles				
Computer software	3,679	3,528	3,261	3,075
Other	2,680	2,871	3,096	3,721
Total intangibles	6,359	6,400	6,357	6,796
Total investment properties	198	213	218	223
Total biological assets	36	36	36	36
Total heritage and cultural assets	10,842	10,854	10,868	10,882
Total assets held for sale	133	95	95	95
Total other non-financial assets	604	360	244	250
Total non-financial assets	118,450	121,316	123,364	126,936

Note 16: Loans

	Estimates		Projections	
	2014-15 \$m	2015-16 \$m	2016-17 \$m	2017-18 \$m
Promissory notes	7,910	7,437	7,415	7,391
Special drawing rights	5,092	5,122	5,193	5,265
Other	691	446	348	271
Total loans	13,693	13,004	12,957	12,927

Appendix B: Australian Government Budget Financial Statements

Note 17: Employee and superannuation liabilities

	Estimates		Projections	
	2014-15 \$m	2015-16 \$m	2016-17 \$m	2017-18 \$m
Total superannuation liability(a)	163,240	169,332	175,275	181,334
Other employee liabilities				
Leave and other entitlements	7,357	7,433	7,528	7,651
Accrued salaries and wages	734	537	554	563
Workers compensation claims	3,271	3,350	3,435	3,527
Other	4,616	4,733	4,851	4,993
Total other employee liabilities	15,977	16,054	16,368	16,732
Total employee and superannuation liabilities	179,217	185,386	191,643	198,066

(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	
	2014-15 \$m	2015-16 \$m	2016-17 \$m	2017-18 \$m
Suppliers payable				
Trade creditors	3,936	3,888	3,861	3,985
Operating lease rental payable	280	279	279	279
Other creditors	689	693	695	694
Total suppliers payable	4,905	4,860	4,835	4,958
Total personal benefits provisions and payables	13,234	12,808	12,484	11,897
Total subsidies provisions and payables	4,397	4,592	4,754	4,797
Grants provisions and payables				
State and Territory governments	105	104	103	99
Non-profit organisations	70	70	70	70
Private sector	237	232	231	231
Overseas	1,499	1,060	2,276	1,811
Local governments	2	2	2	2
Other	9,759	7,953	7,802	7,728
Total grants provisions and payables	11,671	9,420	10,485	9,942
Other provisions and payables				
Provisions for tax refunds	2,377	2,423	2,439	2,427
Other	10,848	12,651	13,064	11,894
Total other provisions and payables	13,225	15,075	15,503	14,321

Appendix B: Australian Government Budget Financial Statements

Note 19: Reconciliation of cash

	Estimates		Projections	
	2014-15 \$m	2015-16 \$m	2016-17 \$m	2017-18 \$m
Net operating balance (revenues less expenses)	-37,022	-24,801	-15,060	-2,136
<i>less</i> Revenues not providing cash				
Other	1,560	1,543	1,553	1,789
Total revenues not providing cash	1,560	1,543	1,553	1,789
<i>plus</i> Expenses not requiring cash				
Increase/(decrease) in employee entitlements	8,382	6,380	6,635	6,622
Depreciation/amortisation expense	6,787	6,962	7,218	7,401
Mutually agreed write-downs	2,564	2,689	2,906	3,110
Other	1,549	1,184	664	1,800
Total expenses not requiring cash	19,282	17,215	17,423	18,933
<i>plus</i> Cash provided / (used) by working capital items				
Decrease/(increase) in inventories	-248	-219	-181	-156
Decrease/(increase) in receivables	-6,046	-9,381	-10,512	-11,236
Decrease/(increase) in other financial assets	1,527	1,726	2,597	3,038
Decrease/(increase) in other non-financial assets	-95	-39	-65	-25
Increase/(decrease) in benefits, subsidies and grants payable	-2,174	-2,111	1,142	-713
Increase/(decrease) in suppliers' liabilities	568	-56	-32	39
Increase/(decrease) in other provisions and payables	-2,068	-854	-1,373	-2,181
Net cash provided / (used) by working capital	-8,537	-10,933	-8,425	-11,234
<i>equals</i> (Net cash from/(to) operating activities)	-27,837	-20,063	-7,616	3,774
<i>plus</i> (Net cash from/(to) investing activities)	-23,762	-27,239	-40,207	-26,567
Net cash from operating activities and investment	-51,599	-47,302	-47,823	-22,793
<i>plus</i> (Net cash from/(to) financing activities)	51,580	47,640	47,459	23,398
equals Net increase/(decrease) in cash held	-19	337	-364	605
Cash at the beginning of the year	3,844	3,825	4,163	3,799
Net increase/(decrease) in cash	-19	337	-364	605
Cash at the end of the year	3,825	4,163	3,799	4,404

Note 19(a): Consolidated Revenue Fund

	Estimates		Projections	
	2014-15 \$m	2015-16 \$m	2016-17 \$m	2017-18 \$m
Total general government sector cash	3,825	4,163	3,799	4,404
less cash balances of corporate Commonwealth entities	1,767	1,817	2,001	2,273
plus monies held by the Commonwealth on behalf of other parties	173	173	173	173
Balance of Consolidated Revenue Fund at 30 June	2,231	2,519	1,971	2,304

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 entities subject to the *Public Governance, Performance and Accountability Act 2013* from 1 July 2014 and previously subject to the *Financial Management and Accountability Act 1997* (FMA Act) (non-corporate Commonwealth entities) or the *Commonwealth Authorities and Companies Act 1997* (CAC Act) (corporate Commonwealth entities), 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 the purposes of this report and consistent with the presentation of previous notes, total Australian Government GGS cash, less cash controlled and administered by corporate Commonwealth entities, plus monies held by the Commonwealth on behalf of other parties (previously described as special public moneys), provides estimates and projections of the Consolidated Revenue Fund as presented in the table above.

Attachment A

FINANCIAL REPORTING STANDARDS AND BUDGET CONCEPTS

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 and budget outcome reporting focuses on the GGS.

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, overriding AASB 10 *Consolidated 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*.¹

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

1 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).

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.²

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).

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

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

² 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.

(effectively purchases less sales) on non-financial assets rather than consumption (depreciation) of non-financial assets.³

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.

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.

³ 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.

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 assets⁴ (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 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.

⁴ 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.

Appendix B: Australian Government Budget Financial Statements

For the GGS, the underlying cash balance is calculated as shown below:

Net cash flows from operating activities
<i>plus</i>
Net cash flows from investments in non-financial assets
<i>less</i>
Net acquisitions of assets acquired under finance leases and similar arrangements ⁵
<i>equals</i>
ABS GFS cash surplus/deficit
<i>less</i>
Net Future Fund earnings
<i>equals</i>
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.

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 Future Fund earnings to the underlying cash balance.

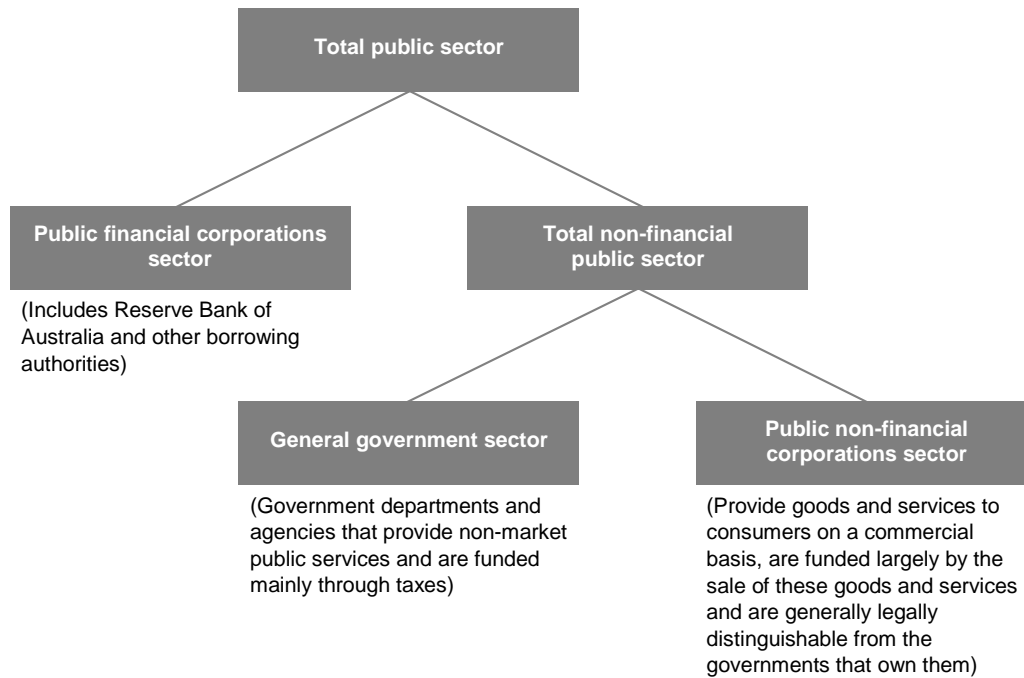
5 The underlying cash balance treats the acquisition and disposal of non-financial assets in the same manner regardless of whether they occur by purchase/sale or finance lease – acquisitions reduce the underlying cash balance and disposals increase the underlying cash balance. However, finance leases 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.

Cash flows from investments in financial assets for policy purposes include equity transactions and net advances⁶. 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 general government sector (GGS) and the public non-financial corporations (PNFC) and public financial corporations (PFC) sectors. AASB 1049 has also adopted this sectoral reporting.

Figure B1: Institutional structure of the public sector



All entities are classified as GGS entities except for the following list of portfolio entities that are classified as PFC or PNFC (Table B11).

A table which provides a full list of public sector principal entities is available on the Department of Finance website at www.finance.gov.au/sites/default/files/list-ggs-pnfc-pfc-pgpa.pdf.

⁶ Cash flows from investments in financial assets for policy purposes were called net advances under the cash budgeting framework.

Table B11: Entities outside of the general government sector

Public financial corporations
Employment Portfolio Coal Mining Industry (Long Service Leave Funding) Corporation
Foreign Affairs and Trade Portfolio Export Finance and Insurance Corporation
Treasury Portfolio Australian Reinsurance Pool Corporation, Reserve Bank of Australia
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
Industry Portfolio ANSTO Nuclear Medicine Pty 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

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 Australian Government's revised estimate for the 2014-15 LCA is a \$49.1 billion deficit, which is a deterioration of \$11.6 billion from the LCA deficit of \$37.4 billion at the 2014-15 Budget. The revised LCA estimate falls outside the tolerance limit set at Budget. This change primarily reflects write-downs in tax receipts and higher payments than estimated at the time of the 2014-15 Budget.

Table B12: 2014-15 Commonwealth Loan Council Allocation

	2014-15 Budget estimate \$m	2014-15 MYEFO estimate \$m
GGs cash surplus(-)/deficit(+)	26,705	37,042
PNFC sector cash surplus(-)/deficit(+)	5,162	5,432
NFPS cash surplus(-)/deficit(+)(a)	31,867	42,474
<i>plus</i> Acquisitions under finance leases and similar arrangements	0	0
<i>equals</i> ABS GFS cash surplus(-)/deficit(+)	31,867	42,474
<i>minus</i> Net cash flows from investments		
in financial assets for policy purposes(b)	-6,819	-6,821
<i>plus</i> Memorandum items(c)	-1,239	-202
Loan Council Allocation	37,447	49,093

(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 net funding of superannuation and the net financing requirement of the Australian National University.