

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 sector (PNFC) 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 for departures from these standards to be disclosed. The Government has produced financial statements that comply with both 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 statements for MYEFO have been prepared on a consistent basis with the 2011-12 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 Accrual 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 MYEFO 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

	Note	Estimates		Projections	
		2011-12 \$m	2012-13 \$m	2013-14 \$m	2014-15 \$m
Revenue					
Taxation revenue	3	323,631	361,679	385,879	406,890
Sales of goods and services	4	8,050	8,295	8,561	8,256
Interest income	5	5,190	5,417	5,463	5,258
Dividend income	5	1,652	1,786	1,931	1,954
Other	6	5,587	5,587	5,709	5,793
Total revenue		344,110	382,764	407,542	428,151
Expenses					
Gross operating expenses					
Wages and salaries(a)	7	19,374	18,707	18,930	19,176
Superannuation	7	4,177	3,376	3,412	3,382
Depreciation and amortisation	8	5,733	5,956	6,110	6,294
Supply of goods and services	9	70,425	70,092	74,244	78,855
Other operating expenses(a)	7	4,624	4,630	4,769	4,760
<i>Total gross operating expenses</i>		<i>104,333</i>	<i>102,761</i>	<i>107,465</i>	<i>112,467</i>
Superannuation interest expense	7	7,351	7,886	8,141	8,398
Interest expenses	10	12,983	13,680	14,165	14,128
Current transfers					
Current grants	11	111,799	117,859	123,587	132,616
Subsidy expenses		9,782	12,808	14,794	14,946
Personal benefits	12	110,787	115,488	121,805	129,837
<i>Total current transfers</i>		<i>232,368</i>	<i>246,156</i>	<i>260,187</i>	<i>277,400</i>
Capital transfers					
Mutually agreed write-downs		2,267	2,403	2,549	2,696
Other capital grants		12,445	7,049	8,116	3,775
<i>Total capital transfers</i>		<i>14,712</i>	<i>9,451</i>	<i>10,666</i>	<i>6,471</i>
Total expenses		371,747	379,935	400,623	418,863
Net operating balance		-27,637	2,829	6,919	9,288
Other economic flows					
Gain/loss on equity and on sale of assets(b)		-1,875	7,889	3,508	3,647
Net write-downs of assets (including bad and doubtful debts)		-5,376	-5,887	-6,284	-6,641
Assets recognised for the first time		517	544	574	609
Actuarial revaluations		-819	0	0	0
Net foreign exchange gains		-527	26	871	68
Net swap interest received		45	0	0	0
Market valuation of debt		-7,628	1,352	1,182	973
Other economic revaluations(c)		-84	-337	-14	450
Total other economic flows		-15,747	3,587	-163	-894
Comprehensive result -					
Total change in net worth	13	-43,383	6,415	6,756	8,394

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

	Note	Estimates		Projections	
		2011-12 \$m	2012-13 \$m	2013-14 \$m	2014-15 \$m
Net operating balance		-27,637	2,829	6,919	9,288
Net acquisition of non-financial assets					
Purchases of non-financial assets		10,013	8,846	8,730	8,899
<i>less</i> Sales of non-financial assets		612	5,104	403	235
<i>less</i> Depreciation		5,733	5,956	6,110	6,294
<i>plus</i> Change in inventories		638	537	532	458
<i>plus</i> Other movements in non-financial assets		508	-208	10	65
Total net acquisition of non-financial assets		4,813	-1,885	2,760	2,893
Fiscal balance (Net lending/borrowing)(d)		-32,450	4,714	4,159	6,395

(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) Reflects changes in the market valuation of investments and any revaluations at the point of disposal or sale.

(c) Largely reflects other revaluation of assets and liabilities.

(d) The term fiscal balance is not used by the ABS.

Table B2: Australian Government general government sector balance sheet

	Note	Estimates		Projections	
		2011-12 \$m	2012-13 \$m	2013-14 \$m	2014-15 \$m
Assets					
Financial assets					
Cash and deposits	20(a)	2,484	2,511	2,673	2,460
Advances paid	14	29,790	32,683	36,611	40,757
Investments, loans and placements	15	97,990	106,868	106,582	108,448
Other receivables	14	37,011	40,720	42,336	44,929
Equity investments					
Investments in other public sector entities		21,858	26,425	33,040	37,129
Equity accounted investments		318	318	319	321
Investments - shares		29,110	31,781	35,299	38,389
Total financial assets		218,560	241,305	256,861	272,434
Non-financial assets					
Land	16	8,661	8,595	8,531	8,588
Buildings		23,094	23,953	24,352	24,255
Plant, equipment and infrastructure		52,696	54,178	56,039	58,003
Inventories		7,031	7,204	7,328	7,357
Intangibles		5,224	5,388	5,326	5,582
Investment properties		316	316	316	316
Biological assets		36	36	36	36
Heritage and cultural assets		9,498	9,511	9,523	9,536
Assets held for sale		148	148	148	148
Other non-financial assets		3,196	3,022	3,058	3,166
Total non-financial assets		109,901	112,350	114,656	116,987
Total assets		328,461	353,655	371,517	389,421
Liabilities					
Interest bearing liabilities					
Deposits held		209	209	209	209
Government securities		253,455	262,296	268,157	272,424
Loans	17	8,357	11,755	11,760	11,789
Other borrowing		796	1,093	1,453	1,351
Total interest bearing liabilities		262,816	275,353	281,579	285,773
Provisions and payables					
Superannuation liability	18	133,487	137,995	142,565	147,196
Other employee liabilities	18	11,539	11,806	12,122	12,311
Suppliers payable	19	4,478	4,428	4,487	4,493
Personal benefits provisions and payable	19	13,165	14,138	14,428	14,984
Subsidies provisions and payable	19	2,292	2,881	3,145	3,268
Grants provisions and payable	19	10,618	10,914	9,759	8,657
Other provisions and payables	19	12,394	12,053	12,588	13,503
Total provisions and payables		187,973	194,215	199,095	204,411
Total liabilities		450,789	469,568	480,674	490,184
Net worth(a)		-122,328	-115,913	-109,157	-100,763
<i>Net financial worth(b)</i>		<i>-232,229</i>	<i>-228,263</i>	<i>-223,813</i>	<i>-217,750</i>
<i>Net financial liabilities(c)</i>		<i>254,087</i>	<i>254,688</i>	<i>256,854</i>	<i>254,880</i>
<i>Net debt(d)</i>		<i>132,552</i>	<i>133,292</i>	<i>135,713</i>	<i>134,108</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	
	2011-12 \$m	2012-13 \$m	2013-14 \$m	2014-15 \$m
Cash receipts from operating activities				
Taxes received	315,299	349,161	375,458	395,493
Receipts from sales of goods and services	7,970	8,218	8,523	8,191
Interest receipts	4,902	4,951	4,942	4,617
Dividends and income tax equivalents	2,233	1,785	1,930	1,953
Other receipts	5,417	5,340	5,378	5,469
Total operating receipts	335,820	369,455	396,231	415,724
Cash payments for operating activities				
Payments for employees	-26,171	-25,428	-25,863	-26,270
Payments for goods and services	-71,140	-70,337	-74,405	-79,106
Grants and subsidies paid	-137,057	-135,063	-144,893	-149,344
Interest paid	-10,775	-11,753	-11,721	-11,948
Personal benefit payments	-110,299	-114,526	-121,504	-129,286
Other payments	-4,522	-4,339	-4,491	-4,566
Total operating payments	-359,963	-361,447	-382,878	-400,519
Net cash flows from operating activities	-24,143	8,008	13,353	15,205
Cash flows from investments in non-financial assets				
Sales of non-financial assets	612	5,104	403	235
Purchases of non-financial assets	-10,009	-8,218	-8,249	-8,956
Net cash flows from investments in non-financial assets	-9,397	-3,114	-7,847	-8,721
Net cash flows from investments in financial assets for policy purposes	-9,677	-10,867	-9,073	-7,558
Cash flows from investments in financial assets for liquidity purposes				
Increase in investments	1,475	-3,028	-1,959	-3,483
Net cash flows from investments in financial assets for liquidity purposes	1,475	-3,028	-1,959	-3,483
Cash receipts from financing activities				
Borrowing	43,688	10,343	7,057	5,435
Total cash receipts from financing activities	43,688	10,343	7,057	5,435
Cash payments for financing activities				
Other financing	-1,939	-1,314	-1,370	-1,091
Total cash payments for financing activities	-1,939	-1,314	-1,370	-1,091
Net cash flows from financing activities	41,749	9,028	5,687	4,344
Net increase/(decrease) in cash held	7	27	162	-213

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

	Estimates		Projections	
	2011-12 \$m	2012-13 \$m	2013-14 \$m	2014-15 \$m
Net cash flows from operating activities and investments in non-financial assets (surplus+)/deficit(-)	-33,540	4,894	5,506	6,484
Finance leases and similar arrangements(b)	-117	-404	-469	0
GFS cash surplus(+)/deficit(-)	-33,658	4,490	5,038	6,484
less Future Fund earnings	3,455	3,011	3,174	3,376
Equals underlying cash balance(c)	-37,113	1,479	1,864	3,108
plus Net cash flows from investments in financial assets for policy purposes	-9,677	-10,867	-9,073	-7,558
plus Future Fund earnings	3,455	3,011	3,174	3,376
Equals headline cash balance	-43,334	-6,377	-4,035	-1,074

(a) A positive number denotes a cash inflow; a negative sign 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
	2011-12
	\$m
Revenue	
Current grants and subsidies	16
Sales of goods and services	7,779
Interest income	83
Other	2
Total revenue	7,880
Expenses	
Gross operating expenses	
Wages and salaries(a)	2,945
Superannuation	250
Depreciation and amortisation	561
Supply of goods and services	3,686
Other operating expenses(a)	404
<i>Total gross operating expenses</i>	<i>7,846</i>
Interest expenses	99
Other property expenses	227
Current transfers	
Tax expenses	62
<i>Total current transfers</i>	<i>62</i>
Total expenses	8,235
Net operating balance	-355
Other economic flows	-619
Comprehensive result - Total change in net worth excluding contribution from owners	-974
Net acquisition of non-financial assets	
Purchases of non-financial assets	3,590
<i>less</i> Sales of non-financial assets	<i>114</i>
<i>less</i> Depreciation	<i>561</i>
<i>plus</i> Change in inventories	<i>22</i>
<i>plus</i> Other movements in non-financial assets	<i>283</i>
Total net acquisition of non-financial assets	3,219
Fiscal balance (Net lending/borrowing)(b)	-3,575

(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
	2011-12
	\$m
Assets	
Financial assets	
Cash and deposits	2,549
Investments, loans and placements	342
Other receivables	998
Equity investments	320
<i>Total financial assets</i>	4,209
Non-financial assets	
Land and fixed assets	10,720
Other non-financial assets(a)	896
<i>Total non-financial assets</i>	11,617
Total assets	15,826
Liabilities	
Interest bearing liabilities	
Borrowing	2,178
<i>Total interest bearing liabilities</i>	2,178
Provisions and payables	
Other employee liabilities	1,229
Other provisions and payables(a)	2,236
<i>Total provisions and payables</i>	3,465
Total liabilities	5,644
Shares and other contributed capital	10,182
Net worth(b)	10,182
<i>Net financial worth(c)</i>	-1,434
<i>Net debt(d)</i>	-713

(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 and 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
	2011-12
	\$m
Cash receipts from operating activities	
Receipts from sales of goods and services	8,661
GST input credit receipts	82
Other receipts	133
Total operating receipts	8,876
Cash payments for operating activities	
Payments to employees	-3,764
Payment for goods and services	-4,186
Interest paid	-87
GST payments to taxation authority	-239
Other payments	-100
Total operating payments	-8,376
Net cash flows from operating activities	500
Cash flows from investments in non-financial assets	
Sales of non-financial assets	158
Purchases of non-financial assets	-3,873
Net cash flows from investments in non-financial assets	-3,715
Cash flows from investments in financial assets for liquidity purposes	
Increase in investments	137
Net cash flows from investments in financial assets for liquidity purposes	137
Net cash flows from financing activities	
Borrowing (net)	764
Other financing (net)	3,557
Distribution paid (net)	-244
Net cash flows from financing activities	4,077
Net increase/(decrease) in cash held	999
Cash at the beginning of the year	1,551
Cash at the end of the year	2,549
Net cash from operating activities and investments in non-financial assets	-3,215
Distributions paid	-244
Equals surplus(+)/deficit(-)	-3,459
Finance leases and similar arrangements(b)	0
GFS cash surplus(+)/deficit(-)	-3,459

(a) A positive number denotes a cash inflow; a negative sign 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
	2011-12
	\$m
Revenue	
Taxation revenue	323,569
Sales of goods and services	14,628
Interest income	5,244
Dividend income	1,424
Other	5,589
Total revenue	350,454
Expenses	
Gross operating expenses	
Wages and salaries(a)	22,319
Superannuation	4,427
Depreciation and amortisation	6,294
Supply of goods and services	72,909
Other operating expenses(a)	5,028
<i>Total gross operating expenses</i>	<i>110,977</i>
Superannuation interest expense	7,351
Interest expenses	13,054
Current transfers	
Current grants	111,799
Subsidy expenses	9,766
Personal benefits	110,787
<i>Total current transfers</i>	<i>232,352</i>
Capital transfers	14,712
Total expenses	378,446
Net operating balance	-27,992
Other economic flows	-14,218
Comprehensive result - Total change in net worth	-42,210
Net acquisition of non-financial assets	
Purchases of non-financial assets	13,603
<i>less</i> Sales of non-financial assets	726
<i>less</i> Depreciation	6,294
<i>plus</i> Change in inventories	660
<i>plus</i> Other movements in non-financial assets	790
Total net acquisition of non-financial assets	8,033
Fiscal balance (net lending/borrowing)(b)	-36,025

(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
	2011-12
	\$m
Assets	
Financial assets	
Cash and deposits	5,033
Advances paid	29,790
Investments, loans and placements	98,050
Other receivables	37,865
Equity investments	41,992
<i>Total financial assets</i>	<i>212,730</i>
Non-financial assets	
Land and fixed assets	111,700
Other non-financial assets	9,817
<i>Total non-financial assets</i>	<i>121,518</i>
Total assets	334,248
Liabilities	
Interest bearing liabilities	
Deposits held	209
Government securities	253,455
Loans	8,075
Other borrowing	2,975
<i>Total interest bearing liabilities</i>	<i>264,713</i>
Provisions and payables	
Superannuation liability	133,487
Other employee liabilities	12,767
Other provisions and payables	45,040
<i>Total provisions and payables</i>	<i>191,294</i>
Total liabilities	456,007
Shares and other contributed capital	10,182
Net worth(a)	-121,759
<i>Net financial worth(b)</i>	<i>-243,277</i>
<i>Net debt(c)</i>	<i>131,839</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
	2011-12
	\$m
Cash receipts from operating activities	
Taxes received	315,207
Receipts from sales of goods and services	14,634
Interest receipts	4,957
Dividends and income tax equivalents	2,006
Other receipts	5,449
Total operating receipts	342,252
Cash payments for operating activities	
Payments to employees	-29,935
Payments for goods and services	-73,485
Grants and subsidies paid	-137,057
Interest paid	-10,833
Personal benefit payments	-110,299
Other payments	-4,529
Total operating payments	-366,138
Net cash flows from operating activities	-23,887
Cash flows from investments in non-financial assets	
Sales of non-financial assets	770
Purchases of non-financial assets	-13,882
Net cash flows from investments in non-financial assets	-13,112
Net cash flows from investments in financial assets for policy purposes	-9,677
Cash flows from investments in financial assets for liquidity purposes	
Increase in investments	5,109
Net cash flows from investments in financial assets for liquidity purposes	5,109
Net cash flows from financing activities	
Borrowing (net)	44,453
Other financing (net)	-1,880
Net cash flows from financing activities	42,573
Net increase/(decrease) in cash held	1,006
Cash at the beginning of the year	4,028
Cash at the end of the year	5,033
Net cash from operating activities and investments in non-financial assets	-36,999
Distributions paid	0
Equals surplus(+)/deficit(-)	-36,999
Finance leases and similar arrangements(b)	-117
GFS cash surplus(+)/deficit(-)	-37,116

(a) A positive number denotes a cash inflow; a negative sign 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 major 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, 2005* (cat. no. 5514.0), which in turn is based on the International Monetary Fund (IMF) accrual GFS framework; and
- Australian Accounting Standards (AAS), being AASB 1049 *Whole of Government and General Government Sector Financial Reporting* (AASB 1049) and other applicable Australian Equivalents to International Financial Reporting Standards (AEIFRS).

As required by the Charter, 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.

Budget 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 the ABS GFS

aggregates, the Accrual Uniform Presentation Framework (UPF) requires net debt, net financial worth and net financial liabilities.

Comprehensive guidance has not been issued under either Australian Accounting Standards or Government Finance Statistics for the measurement of accrual revenue and expenses under the carbon price. Current estimates measure revenue and expenses at the market price for carbon in the year that emissions occur. Finance and Treasury will continue to review this treatment in consultation with the ABS and the Australian National Audit Office (ANAO).

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 or in any reconciliation notes 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 or in any reconciliation notes. 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.

Under ABS GFS prepayments are classified as financial assets. In accordance with AAS, prepayments have been classified as non-financial assets in the financial statements. This is a classification difference that impacts on net financial worth.

ABS GFS records defence weapons platforms (DWP) as a non-financial asset on a market value basis (fair value), rather than expensing at time of acquisition. The value used by ABS is consistent with the National Accounts statistical methodology, and represents an early adoption of changes to the *System of National Accounts 2008*. ABS GFS treatment of DWP is consistent with AAS, as non-financial assets can be valued at fair value as long as they can be reliably measured, otherwise cost is permissible. DWP will be valued at cost in the 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. Over the life of the loan the interest earned is recognised at market rates.

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.

Departures from AASB 1049

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. ABS GFS treatment is adopted in the financial statements.

AASB 1049 requires the disclosure of the operating result and its derivation on the face of the operating statement. However, as this aggregate is not used by the Australian Government (and is not required by the UPF), it has been disclosed in Note 13 rather than on the face of the operating statement.

AASB 1049 requires disaggregated information, by ABS GFS function, for expenses and total assets to be disclosed where they are reliably attributable. ABS GFS does not require total assets attributed to functions. In accordance with ABS GFS, disaggregated information for expenses and net acquisition of non-financial assets by function is disclosed in Attachment C of Part 3. In accordance with the UPF, purchases of non-financial assets by function are also disclosed.

AASB 1049 requires AAS measurement of items to be disclosed on the face of the financial statements with reconciliation to ABS GFS measurement of items, where different, in notes to the financial statements. Reconciliation notes have not been included as they would effectively create two 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 variances for the 2011-12 year from the 2011-12 Budget are disclosed in Part 3. All decisions taken between the 2011-12 Budget and MYEFO are disclosed in Appendix A.

In addition to 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, AASB1049 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 and NFPS sector financial statements.

Departures from AASB 1049

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. 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 governments sectors the ABS remove tax effect adjustments. The GFS treatment has been adopted in the financial statements.

Note 3: Taxation revenue by type

	Estimates		Projections	
	2011-12	2012-13	2013-14	2014-15
	\$m	\$m	\$m	\$m
Income taxation				
Individuals and other withholding taxes				
Gross income tax withholding	143,520	151,190	164,170	176,050
Gross other individuals	32,910	37,350	40,240	44,080
less Refunds	26,600	27,200	28,000	30,700
Total individuals and other withholding taxation	149,830	161,340	176,410	189,430
Fringe benefits tax	3,530	3,870	4,360	4,760
Company tax	71,800	77,620	79,690	83,050
Superannuation funds	8,990	10,060	11,100	12,220
Resource rent taxes(a)	2,030	8,000	8,400	6,700
Total income taxation revenue	236,180	260,890	279,960	296,160
Indirect taxation				
Sales taxes				
Goods and services tax	49,750	53,560	56,620	59,410
Wine equalisation tax	750	790	830	880
Luxury car tax	480	510	540	570
Total sales taxes	50,980	54,860	57,990	60,860
Excise duty				
Petrol	6,080	5,800	5,140	5,660
Diesel	7,980	8,480	8,900	9,000
Beer	2,050	2,200	2,300	2,400
Tobacco	6,250	6,250	5,600	5,770
Other excisable products	4,600	5,150	5,400	5,650
Of which: Other excisable beverages(b)	950	1,000	1,050	1,100
Total excise duty revenue	26,960	27,880	27,340	28,480
Customs duty				
Textiles, clothing and footwear	650	700	750	600
Passenger motor vehicles	750	700	750	800
Excise-like goods	4,000	4,250	5,490	5,610
Other imports	1,460	1,710	1,810	1,910
less Refunds and drawbacks	120	120	120	120
Total customs duty revenue	6,740	7,240	8,680	8,800
Carbon pricing mechanism(c)	-	7,690	8,610	9,200
Other indirect taxation				
Agricultural levies	427	432	424	429
Other taxes	2,344	2,687	2,875	2,961
Total other indirect taxation revenue	2,771	3,119	3,299	3,390
Mirror taxes	461	492	523	545
less Transfers to States in relation to mirror tax revenue	461	492	523	545
Mirror tax revenue	0	0	0	0
Total indirect taxation revenue	87,451	100,789	105,919	110,730
Total taxation revenue	323,631	361,679	385,879	406,890
<i>Memorandum:</i>				
Capital gains tax	7,300	11,000	14,300	16,400
Medicare levy revenue	8,930	9,620	10,270	10,940

(a) Resource rent taxes include the PRRT and gross revenue from the MRRT. The net revenue from the MRRT is \$3.7 billion in 2012-13, \$3.8 billion in 2013-14 and \$3.1 billion in 2014-15, which represents the net impact on revenue across several different revenue heads. This includes the offsetting reductions in company tax (through deductibility) and interactions with other taxes.

(b) Other excisable beverages are those not exceeding 10 per cent by volume of alcohol.

(c) Tax revenue includes carbon accrual revenue measured at market price, with details of the accounting treatment of carbon revenue set out in Note 1 to the General Government Sector Financial Statements.

Note 3(a): Taxation revenue by source

	Estimates		Projections	
	2011-12 \$m	2012-13 \$m	2013-14 \$m	2014-15 \$m
Taxes on income, profits and capital gains				
Income and capital gains levied on individuals	153,380	165,240	180,800	194,220
Income and capital gains levied on enterprises	82,800	95,650	99,160	101,940
Total taxes on income, profits and capital gains	236,180	260,890	279,960	296,160
Taxes on employers' payroll and labour force	497	517	538	559
Taxes on the provision of goods and services				
Sales/goods and services tax	50,980	54,860	57,990	60,860
Excises and levies	27,550	28,475	27,926	29,071
Taxes on international trade	6,740	7,240	8,680	8,800
Total taxes on the provision of goods and services	85,270	90,575	94,596	98,731
Other sale of goods and services	1,684	9,697	10,785	11,440
Total taxation revenue	323,631	361,679	385,879	406,890
<i>Memorandum:</i>				
<i>Medicare levy revenue</i>	<i>8,930</i>	<i>9,620</i>	<i>10,270</i>	<i>10,940</i>

Note 4: Sales of goods and services revenue

	Estimates		Projections	
	2011-12 \$m	2012-13 \$m	2013-14 \$m	2014-15 \$m
Sales of goods	1,322	1,538	1,569	1,652
Rendering of services	4,115	3,946	3,843	3,377
Operating lease rental	41	42	42	42
Fees from regulatory services	2,572	2,769	3,106	3,185
Total sales of goods and services revenue	8,050	8,295	8,561	8,256

Note 5: Interest and dividend revenue

	Estimates		Projections	
	2011-12 \$m	2012-13 \$m	2013-14 \$m	2014-15 \$m
Interest from other governments				
State and Territory debt	15	18	23	24
Housing agreements	165	160	155	150
Total interest from other governments	180	178	178	174
Interest from other sources				
Advances	40	43	45	48
Deposits	103	96	99	101
Bank deposits	205	201	198	198
Indexation of HELP receivable and other student loans	410	460	517	584
Other	4,252	4,440	4,425	4,154
Total interest from other sources	5,010	5,239	5,285	5,085
Total interest	5,190	5,417	5,463	5,258
Dividends				
Dividends from other public sector entities	397	444	429	312
Other dividends	1,255	1,342	1,501	1,641
Total dividends	1,652	1,786	1,931	1,954
Total interest and dividend revenue	6,842	7,203	7,394	7,212

Note 6: Other sources of non-taxation revenue

	Estimates		Projections	
	2011-12 \$m	2012-13 \$m	2013-14 \$m	2014-15 \$m
Industry contributions	50	50	34	35
Royalties	1,874	1,825	1,806	1,751
Seigniorage	122	118	119	119
Other	3,541	3,594	3,750	3,888
Total other sources of non-taxation revenue	5,587	5,587	5,709	5,793

Note 7: Employee and superannuation expense

	Estimates		Projections	
	2011-12	2012-13	2013-14	2014-15
	\$m	\$m	\$m	\$m
Wages and salaries expenses	19,374	18,707	18,930	19,176
Other operating expenses				
Leave and other entitlements	2,195	2,135	2,182	2,143
Separations and redundancies	59	43	45	41
Workers compensation premiums and claims	678	712	734	767
Other	1,692	1,740	1,807	1,809
Total other operating expenses	4,624	4,630	4,769	4,760
Superannuation expenses				
Superannuation	4,177	3,376	3,412	3,382
Superannuation interest cost	7,351	7,886	8,141	8,398
Total superannuation expenses	11,529	11,262	11,553	11,780
Total employee and superannuation expense	35,527	34,600	35,252	35,716

Note 8: Depreciation and amortisation expense

	Estimates		Projections	
	2011-12	2012-13	2013-14	2014-15
	\$m	\$m	\$m	\$m
Depreciation				
Specialist military equipment	2,435	2,556	2,685	2,787
Buildings	1,201	1,242	1,275	1,328
Other infrastructure, plant and equipment	1,271	1,319	1,367	1,419
Heritage and cultural assets	38	39	39	39
Total depreciation	4,944	5,155	5,365	5,573
Total amortisation	788	801	745	721
Total depreciation and amortisation expense	5,733	5,956	6,110	6,294

Note 9: Supply of goods and services expense

	Estimates		Projections	
	2011-12	2012-13	2013-14	2014-15
	\$m	\$m	\$m	\$m
Supply of goods and services	21,141	19,901	20,606	21,027
Operating lease rental expenses	2,575	2,566	2,654	2,705
Personal benefits - indirect	39,626	40,274	42,958	46,058
Health care payments	5,298	5,375	5,499	5,604
Other	1,784	1,975	2,528	3,460
Total supply of goods and services	70,425	70,092	74,244	78,855

Note 10: Interest expense

	Estimates		Projections	
	2011-12 \$m	2012-13 \$m	2013-14 \$m	2014-15 \$m
Interest on debt				
Government securities(a)	11,623	12,318	12,453	12,257
Loans	14	9	9	9
Other	60	46	42	39
Total interest on debt	11,697	12,374	12,503	12,305
Other financing costs	1,286	1,306	1,662	1,823
Total interest expense	12,983	13,680	14,165	14,128

(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	
	2011-12 \$m	2012-13 \$m	2013-14 \$m	2014-15 \$m
Current grants expense				
State and Territory governments(a)	84,569	88,609	92,730	98,009
Local governments	73	32	0	0
Private sector	2,257	2,051	2,478	2,235
Overseas	4,077	4,712	5,222	5,481
Non-profit organisations	1,929	1,659	1,756	1,624
Multi-jurisdictional sector	9,177	9,594	9,878	10,138
Other	9,716	11,201	11,523	15,129
Total current grants expense	111,799	117,859	123,587	132,616
Capital grants expense				
Mutually agreed write-downs	2,267	2,403	2,549	2,696
Other capital grants				
State and Territory governments(a)	11,112	6,090	7,111	3,035
Local governments	565	398	429	10
Private sector	273	0	0	0
Multi-jurisdictional sector	93	97	100	102
Other	402	464	477	628
Total capital grants expense	14,712	9,451	10,666	6,471
Total grants expense	126,511	127,311	134,253	139,087

(a) Natural Disasters Relief payments to the States and Territory governments is reclassified from current to capital grants.

Note 12: Personal benefits expense

	Estimates		Projections	
	2011-12 \$m	2012-13 \$m	2013-14 \$m	2014-15 \$m
Social welfare - assistance to the aged	35,695	37,723	40,063	42,822
Assistance to veterans and dependants	6,385	6,224	6,235	6,156
Assistance to people with disabilities	20,004	20,990	22,327	23,772
Assistance to families with children	31,986	33,438	34,428	35,267
Assistance to the unemployed	7,608	8,528	8,140	8,628
Student assistance	4,167	3,809	3,782	3,869
Other welfare programmes	687	521	550	578
Financial and fiscal affairs	271	282	293	305
Vocational and industry training	243	274	276	271
Other	3,741	3,698	5,711	8,168
Total personal benefits expense	110,787	115,488	121,805	129,837

Note 13: Operating result and comprehensive result (total change in net worth)

	Estimates		Projections	
	2011-12 \$m	2012-13 \$m	2013-14 \$m	2014-15 \$m
Opening net worth	-95,386	-122,328	-115,913	-109,157
Opening net worth adjustments(a)	16,442	0	0	0
Adjusted opening net worth	-78,945	-122,328	-115,913	-109,157
Net operating balance	-27,637	2,829	6,919	9,288
Other economic flows – Included in operating result				
Foreign exchange gains	1	26	871	68
Gains from sale of assets	43	4,882	232	111
Other gains	-8,012	5,592	5,262	5,193
Swap interest revenue	104	0	0	0
Net write-down and impairment of assets and fair value losses	-5,376	-5,887	-6,284	-6,641
Foreign exchange losses	-527	0	0	0
Losses from sale of assets	15	5	5	3
Swap interest expense	-59	0	0	0
Total other economic flows	-13,812	4,618	87	-1,265
Operating result(b)	-41,449	7,447	7,005	8,023
Other economic flows – other movements in equity(c)	-1,935	-1,031	-249	371
Comprehensive result	-43,383	6,415	6,756	8,394

(a) Reflects a decrease in the superannuation liability mainly due to a difference in the estimated and actual discount rate. Refer to Note 18 for further details.

(b) Operating result under AEIFRS accounting standards.

(c) Other economic flows not included in the AEIFRS accounting standards operating result.

Note 14: Advances paid and other receivables

	Estimates		Projections	
	2011-12	2012-13	2013-14	2014-15
	\$m	\$m	\$m	\$m
Advances paid				
Loans to State and Territory governments	2,926	2,975	2,932	2,845
Higher Education Loan Program	17,582	20,092	22,817	25,730
Student Financial Supplement Scheme	656	598	533	464
Other	8,665	9,056	10,367	11,756
less Provision for doubtful debts	38	38	39	39
Total advances paid	29,790	32,683	36,611	40,757
Other receivables				
Goods and services receivable	964	996	993	1,018
Recoveries of benefit payments	2,942	2,937	2,894	2,923
Taxes receivable	19,364	23,202	25,381	27,458
Other	17,126	17,089	16,704	17,300
less Provision for doubtful debts	3,385	3,504	3,635	3,769
Total other receivables	37,011	40,720	42,336	44,929

Note 15: Investments, loans and placements

	Estimates		Projections	
	2011-12	2012-13	2013-14	2014-15
	\$m	\$m	\$m	\$m
Investments - deposits	28,234	31,557	28,403	26,822
IMF quota	4,571	9,680	10,575	10,666
Other	65,184	65,630	67,604	70,960
Total investments, loans and placements	97,990	106,868	106,582	108,448

Note 16: Total non-financial assets

	Estimates		Projections	
	2011-12 \$m	2012-13 \$m	2013-14 \$m	2014-15 \$m
Land and buildings				
Land	8,661	8,595	8,531	8,588
Buildings	23,094	23,953	24,352	24,255
Total land and buildings	31,755	32,548	32,883	32,843
Plant, equipment and infrastructure				
Specialist military equipment	40,309	41,352	43,133	45,614
Other	12,387	12,826	12,905	12,389
Total plant, equipment and infrastructure	52,696	54,178	56,039	58,003
Inventories				
Inventories held for sale	1,033	1,087	1,144	1,104
Inventories not held for sale	5,998	6,117	6,184	6,253
Total inventories	7,031	7,204	7,328	7,357
Intangibles				
Computer software	3,151	3,087	2,899	2,821
Other	2,074	2,300	2,426	2,761
Total intangibles	5,224	5,388	5,326	5,582
Total investment properties	316	316	316	316
Total biological assets	36	36	36	36
Total heritage and cultural assets	9,498	9,511	9,523	9,536
Total assets held for sale	148	148	148	148
Other non-financial assets				
Prepayments	2,440	2,473	2,499	2,542
Other	757	549	559	624
Total other non-financial assets	3,196	3,022	3,058	3,166
Total non-financial assets	109,901	112,350	114,656	116,987

Note 17: Loans

	Estimates		Projections	
	2011-12 \$m	2012-13 \$m	2013-14 \$m	2014-15 \$m
Promissory notes	3,204	6,647	6,670	6,694
Special drawing rights	4,355	4,365	4,407	4,449
Other	798	744	683	646
Total loans	8,357	11,755	11,760	11,789

Note 18: Employee and superannuation liabilities

	Estimates		Projections	
	2011-12 \$m	2012-13 \$m	2013-14 \$m	2014-15 \$m
Total superannuation liability(a)	133,487	137,995	142,565	147,196
Other employee liabilities				
Leave and other entitlements	6,648	6,761	6,896	7,038
Accrued salaries and wages	334	326	337	345
Workers compensation claims	1,913	1,952	1,996	2,033
Separations and redundancies	50	51	51	51
Other	2,593	2,718	2,842	2,843
Total other employee liabilities	11,539	11,806	12,122	12,311
Total employee and superannuation liabilities	145,026	149,802	154,687	159,506

(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 Australian Accounting Standards, the long-term government bond rate as at 30 June is used to calculate the superannuation liability for the purpose of actuals reporting.

Note 19: Provisions and payables

	Estimates		Projections	
	2011-12 \$m	2012-13 \$m	2013-14 \$m	2014-15 \$m
Suppliers payable				
Trade creditors	3,340	3,287	3,347	3,353
Operating lease rental payable	193	198	196	197
Other creditors	946	944	944	943
Total suppliers payable	4,478	4,428	4,487	4,493
Total personal benefits provisions and payable	13,165	14,138	14,428	14,984
Total subsidies provisions and payable	2,292	2,881	3,145	3,268
Grants provisions and payable				
State and Territory governments	274	267	267	266
Non-profit organisations	102	102	102	102
Private sector	482	480	477	469
Overseas	1,020	1,019	1,171	882
Local governments	18	18	18	18
Other	8,722	9,028	7,726	6,920
Total grants provisions and payable	10,618	10,914	9,759	8,657
Other provisions and payables				
Provisions for tax refunds	2,243	2,251	2,294	2,294
Other	10,151	9,801	10,294	11,209
Total other provisions and payables	12,394	12,053	12,588	13,503

Note 20: Reconciliation of cash

	Estimates		Projections	
	2011-12 \$m	2012-13 \$m	2013-14 \$m	2014-15 \$m
Net operating balance (revenues less expenses)	-27,637	2,829	6,919	9,288
<i>less</i> Revenues not providing cash				
Other	955	1,070	1,201	1,383
Total revenues not providing cash	955	1,070	1,201	1,383
<i>plus</i> Expenses not requiring cash				
Increase/(decrease) in employee entitlements	4,792	4,778	4,884	4,822
Depreciation/amortisation expense	5,733	5,956	6,110	6,294
Mutually agreed write-downs	2,267	2,403	2,549	2,696
Other	939	739	1,035	1,470
Total expenses not requiring cash	13,730	13,876	14,578	15,282
<i>plus</i> Cash provided / (used) by working capital items				
Decrease/(increase) in inventories	-522	-415	-403	-322
Decrease/(increase) in receivables	-6,237	-9,336	-7,948	-8,429
Decrease/(increase) in other financial assets	582	747	1,383	441
Decrease/(increase) in other non-financial assets	-381	8	23	7
Increase/(decrease) in benefits, subsidies and grants payable	-2,640	2,057	-415	-229
Increase/(decrease) in suppliers' liabilities	-108	-54	73	-32
Increase/(decrease) in other provisions and payables	25	-634	345	584
Net cash provided / (used) by working capital	-9,282	-7,627	-6,943	-7,981
<i>equals</i> (Net cash from/(to) operating activities)	-24,143	8,008	13,353	15,205
<i>plus</i> (Net cash from/(to) investing activities)	-17,599	-17,009	-18,878	-19,762
Net cash from operating activities and investment	-41,742	-9,001	-5,525	-4,557
<i>plus</i> (Net cash from/(to) financing activities)	41,749	9,028	5,687	4,344
equals Net increase/(decrease) in cash held	7	27	162	-213
Cash at the beginning of the year	2,477	2,484	2,511	2,673
Net increase/(decrease) in cash	7	27	162	-213
Cash at the end of the year	2,484	2,511	2,673	2,460

Note 20(a): Consolidated Revenue Fund

	Estimates		Projections	
	2011-12 \$m	2012-13 \$m	2013-14 \$m	2014-15 \$m
Total general government sector cash	2,484	2,511	2,673	2,460
<i>less</i> CAC Agency cash balances	1,735	1,718	1,705	1,732
<i>plus</i> Special public monies	382	382	382	382
Balance of Consolidated Revenue Fund at 30 June	1,131	1,175	1,350	1,110

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), 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.

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 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 2011-12* have been prepared on a basis consistent with the 2011-12 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 Accrual 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, 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 borrowings) less the sum of selected financial assets³ (cash and deposits, advances paid, and investments, loans and placements).

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.

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 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. This measure is conceptually equivalent under the current accrual framework and the previous cash framework. 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 ⁴
<i>equals</i>
ABS GFS cash surplus/deficit
<i>less</i>
Future Fund earnings
<i>equals</i>
Underlying cash balance

The Government is reporting the underlying cash balance net of Future Fund earnings from 2005-06 onwards because the earnings will be reinvested to meet future

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.

superannuation payments and are therefore not available for current spending. However, Future Fund earnings are included in the fiscal balance because superannuation expenses relating to future cash payments are recorded in the fiscal balance estimates.

Expected Future Fund earnings are separately identified in the Australian Government GGS cash flow statement in Table B3 of this statement and the historical tables in 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.

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, 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

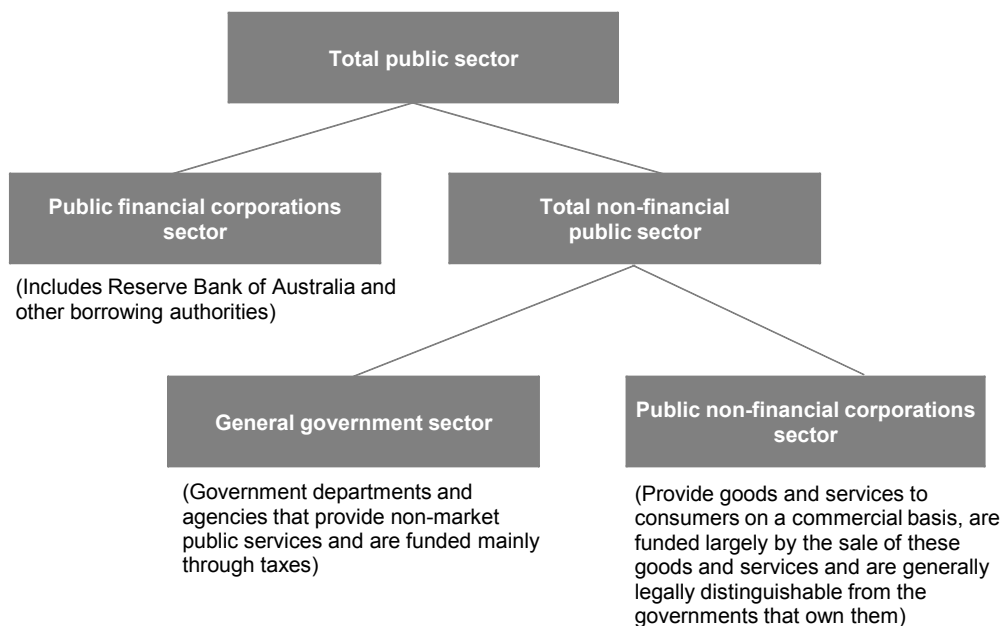


Table B10: Entities within the sectoral classifications

General government sector entities

Agriculture, Fisheries and Forestry Portfolio

Australian Fisheries Management Authority, Australian Pesticides and Veterinary Medicines Authority, Cotton Research and Development Corporation, Department of Agriculture, Fisheries and Forestry, Fisheries Research and Development Corporation, Grains Research and Development Corporation, Grape and Wine Research and Development Corporation, Rural Industries Research and Development Corporation, Sugar Research and Development Corporation, Wheat Exports Australia, Wine Australia Corporation

Attorney-General's Portfolio

Administrative Appeals Tribunal, Attorney-General's Department, Australian Commission for Law Enforcement Integrity, Australian Crime Commission, Australian Customs and Border Protection Service, Australian Federal Police, Australian Human Rights Commission, Australian Institute of Criminology, Australian Law Reform Commission, Australian Security Intelligence Organisation, Australian Transaction Reports and Analysis Centre (AUSTRAC), CrimTrac Agency, Family Court of Australia, Federal Court of Australia, Federal Magistrates Court of Australia, High Court of Australia, Insolvency and Trustee Service Australia, National Native Title Tribunal, Office of Parliamentary Counsel, Office of the Australian Information Commissioner, Office of the Director of Public Prosecutions

Broadband, Communications and the Digital Economy Portfolio

Australian Broadcasting Corporation, Australian Communications and Media Authority, Department of Broadband, Communications and the Digital Economy, Special Broadcasting Service Corporation

Climate Change and Energy Efficiency Portfolio

Clean Energy Regulator, Climate Change Authority, Department of Climate Change and Energy Efficiency, Low Carbon Australia Limited, Office of the Renewable Energy Regulator

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, Employment and Workplace Relations Portfolio

Australian Curriculum, Assessment and Reporting Authority, Australian Institute for Teaching and School Leadership Limited, Australian Learning and Teaching Council Limited, Comcare, Department of Education, Employment and Workplace Relations, Fair Work Australia, National Vocational Education and Training Regulator, Office of the Australian Building and Construction Commissioner, Office of Fair Work Ombudsman, Safe Work Australia, Seafarers Safety, Rehabilitation and Compensation Authority (Seacare Authority), Tertiary Education Quality and Standards Agency

Family, Housing, Community Services and Indigenous Affairs Portfolio

Aboriginal Hostels Limited, Anindilyakwa Land Council, Central Land Council, Department of Families, Housing, Community Services and Indigenous Affairs, Equal Opportunity for Women in the Workplace Agency, Indigenous Business Australia, Indigenous Land Corporation, Northern Land Council, Outback Stores Pty Ltd, Tiwi Land Council, Torres Strait Regional Authority, Wreck Bay Aboriginal Community Council

Finance and Deregulation Portfolio

Australian Electoral Commission, Commonwealth Superannuation Corporation, ComSuper, Department of Finance and Deregulation, Future Fund Management Agency

Foreign Affairs and Trade Portfolio

AusAID, 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

Health and Ageing Portfolio

Aged Care Standards and Accreditation Agency Ltd, Australian Commission on Safety and Quality in Health Care, Australian Institute of Health and Welfare, Australian National Preventive Health Agency, Australian Organ and Tissue Donation and Transplantation Authority, Australian Radiation Protection and Nuclear Safety Agency, Cancer Australia, Department of Health and Ageing, Food Standards Australia New Zealand, General Practice Education and Training Limited, Health Workforce Australia, Interim Independent Hospital Pricing Authority, National Blood Authority, National Health and Medical Research Council, National Health Performance Authority, Private Health Insurance Administration Council, Private Health Insurance Ombudsman, Professional Services Review Scheme

Table B10: Entities within the sectoral classifications (continued)

General government sector entities (continued)
<p>Human Services Portfolio Department of Human Services</p>
<p>Immigration and Citizenship Portfolio Department of Immigration and Citizenship, Migration Review Tribunal and Refugee Review Tribunal</p>
<p>Infrastructure and Transport Portfolio Australian Maritime Safety Authority, Australian Transport Safety Bureau, Civil Aviation Safety Authority, Department of Infrastructure and Transport, National Transport Commission</p>
<p>Innovation, Industry, Science and Research Portfolio Australian Institute of Aboriginal and Torres Strait Islander Studies, Australian Institute of Marine Science, Australian Nuclear Science and Technology Organisation, Australian Research Council, Commonwealth Scientific and Industrial Research Organisation, Department of Innovation, Industry, Science and Research, IIF Investments Pty Limited, IP Australia</p>
<p>Prime Minister and Cabinet Portfolio Australia Business Arts Foundation Ltd, Australia Council, Australian Film, Television and Radio School, Australian Institute of Family Studies, Australian National Audit Office, Australian National Maritime Museum, Australian Public Service Commission, Australian Sports Anti-Doping Authority, Australian Sports Commission, Australian Sports Foundation Limited, Bundanon Trust, Department of the Prime Minister and Cabinet, Department of Regional Australia, Regional Development and Local Government, National Archives of Australia, National Australia Day Council Limited, National Capital Authority, National Film and Sound Archive, National Gallery of Australia, National Library of Australia, National Museum of Australia, Office of the Commonwealth Ombudsman, Office of National Assessments, Office of the Inspector-General of Intelligence and Security, Office of the Official Secretary to the Governor-General, Old Parliament House, Screen Australia</p>
<p>Resources, Energy and Tourism Portfolio Australian Solar Institute Limited, Department of Resources, Energy and Tourism, Geoscience Australia, National Offshore Petroleum Safety and Environmental Management Authority, Tourism Australia</p>

Table B10: Entities within the sectoral classifications (continued)

General government sector entities (continued)
<p>Sustainability, Environment, Water, Population and Communities Portfolio</p> <p>Bureau of Meteorology, Department of Sustainability, Environment, Water, Population and Communities, Director of National Parks, Great Barrier Reef Marine Park Authority, Murray-Darling Basin Authority, National Water Commission, Sydney Harbour Federation Trust</p>
<p>Treasury Portfolio</p> <p>Australian Bureau of Statistics, Australian Competition and Consumer Commission, Australian Office of Financial Management, Australian Prudential Regulation Authority, Australian Securities and Investments Commission, Australian Taxation Office, Commonwealth Grants Commission, 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</p>
<p>Parliamentary Departments</p> <p>Department of Parliamentary Services, Department of the House of Representatives, Department of the Senate</p>
Public financial corporations
<p>Education, Employment and Workplace Relations Portfolio</p> <p>Coal Mining Industry (Long Service Leave Funding) Corporation</p>
<p>Finance and Deregulation Portfolio</p> <p>Medibank Private Ltd</p>
<p>Foreign Affairs and Trade Portfolio</p> <p>Export Finance and Insurance Corporation</p>
<p>Treasury Portfolio</p> <p>Australia Reinsurance Pool Corporation, Reserve Bank of Australia, OzCar</p>

Table B10: Entities within the sectoral classifications (continued)

Public non-financial corporations
<p>Attorney General's Portfolio Australian Government Solicitor</p>
<p>Broadband, Communications and the Digital Economy Portfolio Australian Postal Corporation, NBN Co Ltd</p>
<p>Family, Housing, Community Services and Indigenous Affairs Portfolio Voyages Indigenous Tourism Australia Pty Ltd</p>
<p>Finance and Deregulation Portfolio Albury-Wodonga Development Corporation, Australian River Co. Ltd, ASC Pty Ltd</p>
<p>Human Services Portfolio Australian Hearing Services</p>
<p>Infrastructure and Transport Portfolio Airservices Australia, Australian Rail Track Corporation Ltd</p>

Differences between ABS GFS and AAS framework (AASB 1049)

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

Some of the major differences between AASB 1049 and the ABS GFS treatments of transactions are outlined in Table B11. Further information on the differences between

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).

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 coins (seigniorage) is treated as a liability, and the cost of producing the coins is treated as an expense.	AAS
Provision for bad and doubtful debts	Treated as part of operating expenses and included in the balance sheet as an offset to assets.	Creating provisions 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, decommissioning and make-good	Included in the Fiscal Balance capital adjustment.	Excluded from the calculation of net lending capital adjustment.	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
Deferred tax 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 Tax Office.	ABS GFS

Appendix B: Australian Government budget financial statements

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.	AAS

AUSTRALIAN LOAN COUNCIL ALLOCATION

Under the Loan Council arrangements, the Australian Government and each State and Territory government nominate an annual Loan Council Allocation (LCA). A jurisdiction's LCA incorporates:

- the estimated non-financial public sector GFS cash surplus/deficit (made up from the balance of the general government and public non-financial corporations sectors and total non-financial public sector 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.

In March 2011, the Australian Government nominated, and the Loan Council endorsed, a LCA deficit of \$14,233 million. In the 2011-12 Budget, the Australian Government estimated a LCA deficit of \$35,714 million.

As set out in Table B12, the Australian Government's revised estimate for the 2011-12 LCA is a \$46,262 million deficit.

The Loan Council Allocation mid-year update falls outside the tolerance limit set at budget. This change primarily reflects the weaker outlook for tax receipts.

Table B12: Australian Government Loan Council Allocation

	2011-12 Budget estimate \$m	MYEFO estimate \$m
GG sector cash surplus(-)/deficit(+)	19,571	33,540
PNFC sector cash surplus(-)/deficit(+)	4,516	3,215
NFPS cash surplus(-)/deficit(+)(a)	24,087	36,999
Acquisitions under finance leases and similar arrangements	117	117
<i>equals</i> ABS GFS cash surplus(-)/deficit(+)	24,204	37,116
<i>minus</i> Net cash flows from investments		
in financial assets for policy purposes(b)	-12,216	-9,677
<i>plus</i> Memorandum items(c)	-705	-531
Loan Council Allocation	35,714	46,262

(a) May not directly equate to the sum of the GG sector and the PNFC sector cash surplus/deficit due to intersectoral 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 Loan Council Allocation 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.

