

APPENDIX A: FINANCIAL STATEMENTS

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

The *Charter of Budget Honesty Act 1998* (the Charter) requires that the Pre-Election Economic and Fiscal Outlook be based on external reporting standards. These are:

- the Australian Bureau of Statistics' (ABS) accrual Government Finance Statistics (GFS) publication, *Australian System of Government Finance Statistics: Concepts, Sources and Methods*, (cat. no. 5514.0), which in turn is based on the International Monetary Fund's (IMF) accrual GFS framework; and
- Australian Accounting Standards (AAS), being *AASB 1049 Whole of Government and General Government Sector Financial Reporting* and other applicable Australian Equivalents to International Financial Reporting Standards.

The financial statements have been prepared on the same basis as the budget papers reflecting the Government's accounting policy that ABS GFS remains the basis of budget accounting policy, except where the Government applies the AAS because it provides a better conceptual basis for presenting information of relevance to users of public sector financial reports. This is consistent with the presentation adopted by the Government in the 2010-11 Budget and the Economic Statement.

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

Further information on the reporting frameworks is provided in Statement 9 of Budget Paper No. 1, *Budget Strategy and Outlook 2010-11*.

DEPARTURES FROM EXTERNAL REPORTING STANDARDS

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

Departures from ABS GFS

ABS GFS requires that provisions for bad and doubtful debts be excluded from the balance sheet. This treatment has not been adopted in the financial statements 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 the 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 the AAS treatment for circulating coins. 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 currently requires Special Drawing Rights (SDRs) liabilities to be recorded as a contingent liability. The treatment of SDRs as a contingent liability has not been adopted in the financial statements or any reconciliation notes. The financial statements currently record SDRs as a liability. This is consistent with AAS, and also represents an early adoption of the ABS' proposed revisions to GFS in line with revised international standards (refer ABS cat. no. 5310.0.55.001 *Information Paper: Introduction of revised international standards in ABS economic statistics in 2009* and ABS cat. no. 5310.0.55.002 *Information Paper: Implementation of new international statistical standards*). The ABS will be updating its ABS GFS Manual following the update of the IMF GFS Manual 2001.

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 GFS is consistent with the National Accounts statistical methodology, and represents an early adoption of changes to the *System of National Accounts 2008*. The ABS GFS treatment of DWP is consistent with AAS, as non-financial assets can be valued at fair value as long as they can be reliably measured, otherwise cost is permissible. DWP will be valued at cost in the financial statements, as they have in previous budgets, while the Australian Government ascertains if a relevant and reliable fair value can be sourced.

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

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. The 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 Uniform Presentation Framework, agreed to by the Australian, State and Territory governments), it has not been disclosed 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 was disclosed in the 2010-11 Budget.

AASB 1049 requires AAS measurement of items to be disclosed on the face of the financial statements with reconciliation to the ABS GFS measurement of 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.

Table A1: Australian Government general government sector operating statement

	Estimates		Projections	
	2010-11 \$m	2011-12 \$m	2012-13 \$m	2013-14 \$m
Revenue				
Taxation revenue	302,313	338,146	362,454	384,243
Sales of goods and services	7,913	8,179	8,103	8,030
Interest income	5,302	5,192	5,001	4,947
Dividend income	1,322	1,351	1,997	2,063
Other	4,914	5,226	5,453	5,579
Total revenue	321,765	358,094	383,009	404,862
Expenses				
Gross operating expenses				
Wages and salaries(a)	18,207	18,201	18,402	18,834
Superannuation	3,741	3,779	3,825	3,942
Depreciation and amortisation	5,503	5,566	5,733	5,863
Supply of goods and services	66,409	67,918	70,650	75,885
Other operating expenses(a)	4,369	4,428	4,587	4,740
<i>Total gross operating expenses</i>	<i>98,229</i>	<i>99,892</i>	<i>103,198</i>	<i>109,264</i>
Superannuation interest expense	7,065	7,301	7,552	7,818
Interest expenses	10,872	12,261	12,419	12,401
Current transfers				
Current grants	109,945	115,232	120,699	124,695
Subsidy expenses	8,743	9,140	9,442	9,574
Personal benefits	104,610	108,673	115,015	122,641
<i>Total current transfers</i>	<i>223,298</i>	<i>233,045</i>	<i>245,156</i>	<i>256,910</i>
Capital transfers				
Mutually agreed write-downs	1,888	2,081	2,267	2,413
Other capital grants	12,698	8,158	8,171	6,884
<i>Total capital transfers</i>	<i>14,586</i>	<i>10,240</i>	<i>10,438</i>	<i>9,297</i>
Total expenses	354,051	362,739	378,763	395,690
Net operating balance	-32,286	-4,645	4,246	9,172
Other economic flows				
Gain/loss on equity and on sale of assets(b)	2,262	3,513	7,669	3,583
Net write-downs of assets (including bad and doubtful debts)	-5,216	-5,369	-5,494	-5,785
Assets recognised for the first time	626	658	692	727
Liabilities recognised for the first time	0	0	0	0
Actuarial revaluations	0	0	0	0
Net foreign exchange gains	-6	0	0	0
Net swap interest received	0	0	0	0
Market valuation of debt	755	90	118	122
Other economic revaluations(c)	-601	-151	-174	-82
Total other economic flows	-2,180	-1,259	2,809	-1,435
Comprehensive result -				
Total change in net worth	-34,466	-5,904	7,055	7,737
Net operating balance	-32,286	-4,645	4,246	9,172
Net acquisition of non-financial assets				
Purchases of non-financial assets	11,949	10,213	9,284	8,919
less Sales of non-financial assets	379	1,048	4,705	453
less Depreciation	5,503	5,566	5,733	5,863
plus Change in inventories	725	441	517	497
plus Other movements in non-financial assets	344	52	-218	-16
Total net acquisition of non-financial assets	7,136	4,093	-855	3,084
Fiscal balance (Net lending/borrowing)(d)	-39,422	-8,738	5,101	6,088

(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 A2: Australian Government general government sector balance sheet

	Estimates		Projections	
	2010-11 \$m	2011-12 \$m	2012-13 \$m	2013-14 \$m
Assets				
Financial assets				
Cash and deposits	2,022	1,893	1,739	1,816
Advances paid	25,438	26,327	27,225	27,945
Investments, loans and placements	101,079	102,463	101,429	96,690
Other receivables	35,492	36,980	38,753	40,920
Equity investments				
Investments in other public sector entities	28,146	33,054	39,686	44,411
Equity accounted investments	260	259	258	257
Investments - shares	26,822	23,500	24,160	25,326
Total financial assets	219,260	224,475	233,250	237,365
Non-financial assets				
Land	8,326	8,225	8,204	8,111
Buildings	21,903	22,672	23,367	23,829
Plant, equipment and infrastructure	50,176	53,250	55,232	57,407
Inventories	7,015	7,079	7,338	7,533
Intangibles	5,068	5,323	5,678	5,528
Investment property	182	182	182	182
Biological assets	33	34	34	34
Heritage and cultural assets	9,269	9,276	9,281	9,288
Assets held for sale	106	88	102	85
Other non-financial assets	2,917	2,993	2,940	3,083
Total non-financial assets	104,994	109,122	112,358	115,080
Total assets	324,254	333,598	345,608	352,445
Liabilities				
Interest bearing liabilities				
Deposits held	230	230	230	230
Government securities	198,142	209,435	209,452	203,254
Loans	9,878	9,611	9,504	9,414
Other borrowing	919	819	717	623
Total interest bearing liabilities	209,169	220,095	219,902	213,520
Provisions and payables				
Superannuation liability	127,116	131,419	135,755	140,113
Other employee liabilities	10,203	10,481	10,766	11,060
Suppliers payable	5,062	5,109	5,135	5,231
Personal benefits payable	12,541	12,813	13,381	13,851
Subsidies payable	2,231	2,368	2,517	2,662
Grants payable	7,853	7,851	8,035	8,282
Other provisions and payables	11,870	11,155	10,755	10,628
Total provisions and payables	176,875	181,196	186,344	191,826
Total liabilities	386,043	401,291	406,247	405,346
Net worth(a)	-61,790	-67,694	-60,638	-52,901
<i>Net financial worth(b)</i>	<i>-166,784</i>	<i>-176,816</i>	<i>-172,997</i>	<i>-167,981</i>
<i>Net financial liabilities(c)</i>	<i>194,929</i>	<i>209,871</i>	<i>212,682</i>	<i>212,392</i>
<i>Net debt(d)</i>	<i>80,630</i>	<i>89,413</i>	<i>89,510</i>	<i>87,069</i>

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

(b) Net financial worth equals total financial assets minus total liabilities. That is, it excludes non-financial assets.

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

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

Table A3: Australian Government general government sector cash flow statement^(a)

	Estimates		Projections	
	2010-11 \$m	2011-12 \$m	2012-13 \$m	2013-14 \$m
Cash receipts from operating activities				
Taxes received	294,355	330,153	354,112	375,739
Receipts from sales of goods and services	7,848	8,131	8,031	7,996
Interest receipts	5,073	4,979	4,834	4,847
Dividends and income tax equivalents	2,164	1,444	2,095	2,103
Other receipts	4,628	4,835	5,147	5,238
Total operating receipts	314,068	349,542	374,219	395,923
Cash payments for operating activities				
Payments for employees	-24,791	-24,995	-25,476	-26,256
Payments for goods and services	-66,718	-67,949	-70,839	-76,104
Grants and subsidies paid	-130,122	-132,111	-138,009	-140,856
Interest paid	-9,240	-10,209	-10,366	-10,055
Personal benefit payments	-104,912	-108,392	-114,451	-122,196
Other payments	-3,954	-4,036	-4,159	-4,303
Total operating payments	-339,737	-347,693	-363,300	-379,770
Net cash flows from operating activities	-25,669	1,849	10,919	16,153
Cash flows from investments in non-financial assets				
Sales of non-financial assets	379	1,048	4,705	453
Purchases of non-financial assets	-12,314	-10,389	-9,196	-9,038
Net cash flows from investments in non-financial assets	-11,935	-9,342	-4,492	-8,585
Net cash flows from investments in financial assets for policy purposes	-11,407	-5,059	-6,376	-4,312
Cash flows from investments in financial assets for liquidity purposes				
Increase in investments	8,310	2,143	690	4,119
Net cash flows from investments in financial assets for liquidity purposes	8,310	2,143	690	4,119
Cash receipts from financing activities				
Borrowing	41,495	11,206	2	0
Other financing	0	0	0	0
Total cash receipts from financing activities	41,495	11,206	2	0
Cash payments for financing activities				
Borrowing	0	0	0	-6,610
Other financing	-725	-927	-898	-688
Total cash payments for financing activities	-725	-927	-898	-7,297
Net cash flows from financing activities	40,770	10,279	-896	-7,297
Net increase/(decrease) in cash held	69	-130	-154	78

**Table A3: Australian Government general government sector cash flow statement^(a)
(continued)**

	Estimates		Projections	
	2010-11 \$m	2011-12 \$m	2012-13 \$m	2013-14 \$m
Net cash flows from operating activities and investments in non-financial assets (Surplus+)/deficit(-)	-37,604	-7,492	6,428	7,568
Finance leases and similar arrangements(b)	-163	0	0	0
GFS cash surplus(+)/deficit(-)	-37,768	-7,492	6,428	7,568
<i>less</i> Future Fund earnings	2,921	2,892	2,925	3,022
Equals underlying cash balance(c)	-40,689	-10,384	3,503	4,546
<i>plus</i> Net cash flows from investments in financial assets for policy purposes	-11,407	-5,059	-6,376	-4,312
<i>plus</i> Future Fund earnings	2,921	2,892	2,925	3,022
Equals headline cash balance	-49,175	-12,552	52	3,256

(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.

