Part 5: Financial statements

Auditor-General for Australia

Australian National
Audit Office

INDEPENDENT AUDITOR'S REPORT

To the Minister for Finance

Opinion

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

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

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

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

- Statement by the Secretary and Chief Financial Officer;
- Statement of Comprehensive Income;
- Statement of Financial Position;
- Statement of Changes in Equity;
- Cash Flow Statement;
- Administered Schedule of Comprehensive Income;
- Administered Schedule of Assets and Liabilities;
- Administered Reconciliation Schedule;
- Administered Cash Flow Statement; and
- Notes to the financial statements, comprising a summary of significant accounting policies and other explanatory information.

Basis for Opinion

I conducted my audit in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of Finance in accordance with the relevant ethical requirements for financial statement audits. These include the relevant independence requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* to the extent that they are not in conflict with the *Auditor–General Act 1997* (the Code). I have also fulfilled my other responsibilities in accordance with the Code. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgement, were of most significance in my audit of the financial statements of the current period. These matters were addressed in the context of my audit of the financial statements as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters.

Key audit matter	How the audit addressed the matter
Valuation of the liability and accounting for outstanding insurance claims *Refer to Note C1 'General insurance activities'* The estimation of outstanding insurance claims liability involves significant judgement given the inherent uncertainty in estimating the expected future payments for claims incurred. The estimation of the outstanding insurance claims liability is a key audit matter for me due to: • the balance being significant relative to the Finance's statement of financial position ($439 million outstanding insurance claims liability as at 30 June 2017); • the valuation of outstanding insurance claims relying on the quality of the underlying data. It involves complex judgements about future events, both internal and external to the business, for which small changes in assumptions can result in material impacts to the estimate; and • judgement being involved in estimating the period over which claims are expected to settle.	To address the key audit matter I have: • evaluated the design effectiveness and implementation of key actuarial controls, including data reconciliations and Finance's review of the estimate; • tested a sample of significant claims case estimates and claim payments; • assessed whether Finance's actuarial methodologies were consistent with those used in the industry and with prior periods; and • assessed key actuarial assumptions including claim ratios, expected frequency and severity of claims, and discount rates applied. I challenged these assumptions by comparing them with my expectations based on current trends, changes to cases and industry knowledge. I engaged an expert to assist me in understanding and evaluating Finance's actuarial practices. I also considered the work and findings of the external actuarial expert engaged by Finance.

Key audit matter	How the audit addressed the matter
Valuation of superannuation provisions *Refer to Note C3 'Superannuation'* Finance administers defined benefit schemes that entitle Commonwealth employees to retirement benefits based on past service. The measurement of the superannuation provisions is a key audit matter for me due to: • the balance being significant relative to the Finance's statement of financial position ($172 billion as at 30 June 2017); and • the measurement of the provision being complex, requiring significant professional judgement in the selection of long-term assumptions, such as the salary growth and discount rates, which can result in material fluctuations in amounts recorded.	To address the key audit matter I have: • assessed the control process relating to the management of defined benefit schemes including management of members' data and superannuation payments; • engaged an independent actuary to assist in the review of the methodology, assumptions and judgements used by Finance's actuary in relation to the estimation of the superannuation provision; and • considered whether Finance's disclosures are adequate and in accordance with the Australian Accounting Standards.

Key audit matter	
Valuation of Properties	**How the audit addressed the matter**
Refer to Note D3 'Non-financial assets' Finance has estimated the fair value of its land, buildings and investment properties to be $1,824 million as at 30 June 2017. The valuation of Finance's land, buildings and investment properties is a key audit matter for me due to: • the estimate of the fair values for these assets using different valuation methodologies; and • the valuations being dependent on certain key assumptions that require significant management judgement including capitalisation rates, fair market rents, discount rates and conditions of the use of properties. Where observable market data is not available, the valuation is developed based on the most appropriate source data and is subject to a higher level of judgement.	To address the key audit matter I have: • evaluated the competence, capabilities and objectivity of management's valuers; • obtained an understanding of and critically evaluated Finance's methodologies and their documented basis for key assumptions utilised in the valuation models; and • tested a sample of property valuations and assessed the reasonableness of the significant data inputs underpinning the investment properties' valuation including rental income and capital expenditure and the Land and Building valuations including market value comparisons.

Accountable Authority's Responsibility for the Financial Statements

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

In preparing the financial statements, the Secretary is responsible for assessing Finance's ability to continue as a going concern, taking into account whether the entity's operations will cease as a result of an administrative restructure or for any other reason. The Secretary is also responsible for disclosing matters related to going concern as applicable and using the going concern basis of accounting unless the assessment indicates that it is not appropriate.

Auditor's Responsibilities for the Audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian National Audit Office Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

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

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Accountable Authority;
- conclude on the appropriateness of the Accountable Authority's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern; and
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

From the matters communicated with those charged with governance, I determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. I describe these matters in my auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in my report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Australian National Audit Office

Grant Hehir
Auditor–General

Canberra

5 September 2017

Department of Finance
Financial Statements for the period ended 30 June 2017

Statement by the Secretary and Chief Financial Officer

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

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

Rosemary Huxtable PSM
Secretary
Department of Finance
5 September 2017

Steven Momcilovic
Chief Financial Officer
Department of Finance
5 September 2017

Glossary of terms

AAS	Australian Accounting Standards	IBNER	Claims incurred but not enough reported
AASB	Australian Accounting Standards Board	Investment funds	Administered investment funds managed by the Future Fund Board of Guardians
AMT	Adjusted Market Transactions	IPEA	Independent Parliamentary Expenses Authority
ANI	Australian Naval Infrastructure Pty Ltd	JPS	Judges' Pensions Scheme
ARR	Asset Revaluation Reserve	LSL	Long Service Leave
ASC	ASC Pty Ltd	LTCR	Long Term Cost Report 2014
AUD	Australian dollar	MOP(S) Act	*Members of Parliament (Staff) Act 1984*
BAF	Building Australia Fund	MPS	Ministerial and Parliamentary Services
BSSA	Business Services Special Account	MRFF	Medical Research Future Fund
CEB	Consumed Economic Benefits	MRFFICs	Medical Research Future Fund Investment Companies
CCEs	Corporate Commonwealth Entities	NBFs	Nation Building Funds
CRF	Consolidated Revenue Fund	NET	Net Assets
CPCSA	Coordinated Procurement Contracting Special Account	OCI	Other comprehensive income
CPI	Consumer Price Index	OPA	Official Public Account
CSC	Commonwealth Superannuation Corporation	PAES	Portfolio Additional Estimate Statements
CSS	Commonwealth Superannuation Scheme	PBS	Portfolio Budget Statements
DAS	Department of Administrative Services	PGPA Act	*Public Governance, Performance and Accountability Act 2013*
DCAF	DisabilityCare Australia Fund	PM&C	Department of the Prime Minister and Cabinet
DTA	Digital Transformation Agency	PCSS	Parliamentary Contributory Superannuation Scheme
EIF	Education Investment Fund	PSS	Public Sector Superannuation Scheme
EUR	Euro	PSSap	Public Sector Superannuation accumulation plan
FCCJDDS	Federal Circuit Court Judges Death and Disability Scheme	PWS	Parliamentary Workflow System
FFMA	Future Fund Management Agency	RBA	Reserve Bank of Australia
FRR	*PGPA (Financial Reporting) Rule 2015*	RCN	Replacement Cost of New Assets
FVPL	Fair value through profit or loss	SDO	Service Delivery Office
GBP	British pound	The Board	Future Fund Board of Guardians
G-GPS	Governor-General Pension Scheme	USD	United States dollar
GST	Goods and Services Tax	VSA	Volume sourcing arrangements
HHF	Health and Hospitals Fund	WACC	Weighted average cost of capital
IBNCS	Internet based network connection service	WoAG	Whole of Australian Government
IBNR	Claims incurred but not reported		

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Notes to the financial statements

Department of Finance
STATEMENT OF COMPREHENSIVE INCOME
for the period ended 30 June 2017

	Note ref		Actuals 30 June 2017 $'000	Actuals 30 June 2016 $'000	*Budget 30 June 2017 $'000*
NET COST OF SERVICES					
Expenses					
Employee benefits	E1		**168,618**	170,358	*167,373*
Supplier expenses					
Centralised procurement expense	H2	B1	**135,945**	174,202	*80,540*
Consultants and contractors			**47,445**	52,635	*39,912*
Domestic property portfolio expenses		B2	**38,105**	27,851	*56,655*
Communication and information technology			**42,196**	35,065	*41,834*
Property operating expenses			**3,933**	5,213	*2,318*
Insurance claims	C1.1	B3	**163,993**	94,295	*132,090*
Other goods and services			**21,875**	20,904	*25,510*
Operating lease rentals			**14,066**	6,034	*9,675*
Competitive neutrality	H2		**3,768**	2,252	*2,252*
Notional reinsurance expense	C1.1		**5,000**	5,000	*5,000*
Depreciation and amortisation	D3.1		**29,424**	27,408	*33,483*
Non-financial asset write downs			**2,596**	13,915	*3,389*
Impairment of financial assets	D1.3		**4**	826	*-*
Other expenses			**166**	2,075	*-*
Total expenses			**677,134**	638,033	*600,031*
Own-source income					
Own-source revenue					
Premium revenue	C1.1		**140,290**	125,149	*136,722*
Reinsurance and other recoveries revenue	C1.1		**1,823**	1,504	*-*
Centralised procurement revenue	H2	B1	**135,978**	176,917	*81,340*
Rental income	H2		**67,678**	72,119	*75,322*
Resources received free of charge	H2		**1,398**	2,030	*1,385*
Rendering of services		B4	**65,372**	54,019	*49,971*
Interest revenue	D1.3		**8**	6	*-*
Other revenue			**4,885**	8,701	*7,200*
Total own-source revenue			**417,432**	440,445	*351,940*
Gains					
Gains		B2	**36,760**	43,591	*-*
Total gains			**36,760**	43,591	*-*
Total own-source income			**454,192**	484,036	*351,940*
Net cost of services			**(222,942)**	(153,997)	*(248,091)*
Revenue from Government			**278,357**	271,315	*270,248*
Surplus/(deficit) before income tax on continuing operations			**55,415**	117,318	*22,157*
Income tax expense	H2		**-**	3,843	*4,052*
Surplus/(deficit) after income tax on continuing operations			**55,415**	113,475	*18,105*
OTHER COMPREHENSIVE INCOME					
Items not subject to subsequent reclassification to net cost of services					
Changes in asset revaluation reserves relating to					
Land, building and leasehold improvements	D3.1	B2	**21,879**	25,133	*-*
Total comprehensive income/(loss)			**77,294**	138,608	*18,105*

The above statement should be read in conjunction with the accompanying notes

Department of Finance
STATEMENT OF FINANCIAL POSITION
as at 30 June 2017

Departmental Primary Statements

	Note ref		Actuals 30 June 2017 $'000	Actuals 30 June 2016 $'000	*Budget 30 June 2017 $'000*
Assets					
Financial assets					
Cash and cash equivalents					
Cash and cash equivalents	D1.1		**10,780**	3,321	*5,000*
Special Account cash held in OPA	F3.1	B5	**739,018**	643,912	*663,880*
Trade receivables	D1.1	B1	**74,299**	69,969	*27,934*
Accrued revenue	D1.1		**11,770**	20,344	*8,893*
Appropriations receivable					
Special Account capital receivable	F3.1	B5	**58,891**	82,420	-
Other departmental undrawn	F1.2	B5	**152,956**	172,670	*110,162*
Reinsurance and other recoveries	C1.3		**5,964**	6,383	*6,181*
Lease incentive assets			**7,365**	7,986	-
Investments in joint ventures	H1		**3,611**	4,898	*6,112*
Other financial assets			**2,643**	3,434	*9,917*
Total financial assets			**1,067,297**	1,015,337	*838,079*
Non-financial assets					
Land	D3.1	B2	**387,641**	413,298	*396,320*
Buildings	D3.1	B2	**589,011**	637,686	*567,090*
Leasehold improvements	D3.1		**26,740**	29,159	-
Investment properties	D3.1	B2	**847,703**	626,437	*588,932*
Plant and equipment	D3.1		**30,867**	28,673	*51,668*
Intangible assets	D3.1	B4	**94,387**	71,819	*114,283*
Prepayments			**9,443**	11,274	*8,552*
Assets held for sale	D3.2		**4,317**	12,137	*11,942*
Total non-financial assets			**1,990,109**	1,830,483	*1,738,787*
Total Assets			**3,057,406**	2,845,820	*2,576,866*
Liabilities					
Trade creditors and accruals	D1.1		**49,771**	53,029	*53,962*
Unearned revenue	H2	B1	**149,183**	85,945	*109,897*
Return of equity - special accounts	H2		**57,145**	65,323	*19,875*
Outstanding insurance claims	C1.4	B3	**438,663**	352,587	*329,005*
Employee provisions	E2		**58,403**	61,549	*67,743*
Finance leases	D1.1		**6,475**	10,102	-
Lease incentive liabilities			**37,690**	40,144	-
Other provisions	D4	B2	**8,815**	24,774	*21,138*
Other payables			**5,591**	4,287	*2,540*
Total liabilities			**811,736**	697,740	*604,160*
Net Assets			**2,245,670**	2,148,080	*1,972,706*
Equity					
Contributed equity/capital			**1,638,593**	1,618,297	*1,653,311*
Retained earnings			**407,936**	352,521	*167,266*
Asset revaluation reserves		B2	**199,141**	177,262	*152,129*
Total Equity			**2,245,670**	2,148,080	*1,972,706*

The above statement should be read in conjunction with the accompanying notes

Department of Finance
STATEMENT OF CHANGES IN EQUITY
for the period ended 30 June 2017

		Actuals							
		Retained earnings		**Asset revaluation reserves**		**Contributed equity/capital**		**Total Equity**	
	Note ref	**30 June 2017 $'000**	30 June 2016 $'000	**30 June 2017 $'000**	30 June 2016 $'000	**30 June 2017 $'000**	30 June 2016 $'000	**30 June 2017 $'000**	30 June 2016 $'000
Opening balance									
Balance carried forward		**352,521**	239,046	**177,262**	152,129	**1,618,297**	1,672,193	**2,148,080**	2,063,368
Adjusted opening balance		**352,521**	239,046	**177,262**	152,129	**1,618,297**	1,672,193	**2,148,080**	2,063,368
Comprehensive income									
Surplus/(deficit) for the period		**55,415**	113,475	**-**	-	**-**	-	**55,415**	113,475
Other comprehensive income		**-**	-	**21,879**	25,133	**-**	-	**21,879**	25,133
Total comprehensive income		**55,415**	113,475	**21,879**	25,133	**-**	-	**77,294**	138,608
Transactions with owners									
Distributions to owners									
Transfer of assets		**-**	-	**-**	-	**(44,086)**	(136,253)	**(44,086)**	(136,253)
Return of equity - special accounts	H2	**-**	-	**-**	-	**(57,145)**	(67,662)	**(57,145)**	(67,662)
Return of equity - other		**-**	-	**-**	-	**(2,323)**	(6,262)	**(2,323)**	(6,262)
Contributions by owners									
Departmental capital budget		**-**	-	**-**	-	**-**	-	**-**	-
Equity injection - appropriations & supplementation	F1.1 & F1.2	**-**	-	**-**	-	**109,808**	157,310	**109,808**	157,310
Restructuring	C4	**-**	-	**-**	-	**14,042**	(1,029)	**14,042**	(1,029)
Total transactions with owners		**-**	-	**-**	-	**20,296**	(53,896)	**20,296**	(53,896)
Closing balance		**407,936**	352,521	**199,141**	177,262	**1,638,593**	1,618,297	**2,245,670**	2,148,080
Budget 30 June 2017									
Opening balance		*226,357*	*242,715*	*152,129*	*135,684*	*1,577,718*	*1,888,616*	***1,956,204***	*2,267,015*
Total comprehensive income		*18,105*	*15,135*	-	-	-	-	***18,105***	*15,135*
Total transactions with owners		*(77,196)*	*594*	-	-	*75,593*	*(170,059)*	***(1,603)***	*(169,465)*
Closing balance		*167,266*	*258,444*	*152,129*	*135,684*	*1,653,311*	*1,718,557*	***1,972,706***	*2,112,685*

The above statement should be read in conjunction with the accompanying notes

Department of Finance
CASH FLOW STATEMENT
for the period ended 30 June 2017

Departmental Primary Statements

	Note ref	Actuals 30 June 2017 $'000	Actuals 30 June 2016 $'000	*Budget 30 June 2017 $'000*
OPERATING ACTIVITIES				
Cash received				
Rendering of services		**273,407**	152,999	*206,905*
Revenue from Government		**306,124**	259,944	*323,425*
Insurance premiums		**140,301**	125,149	*136,722*
Reinsurance and other recoveries		**2,266**	1,302	-
Interest and dividends		**8**	6	-
Rent received		**67,678**	72,119	-
Net GST received		**415**	3,415	-
Other		**8,515**	5,332	*7,200*
Total cash received		**798,714**	620,266	*674,252*
Cash used				
Employees		**175,502**	169,842	*164,941*
Suppliers		**337,210**	326,138	*261,551*
Insurance claims		**76,726**	70,713	*132,090*
Net special account receipts transferred to OPA		**-**	-	*77,196*
Total cash used		**589,438**	566,693	*635,778*
Net cash received/(used) for operating activities		**209,276**	53,573	*38,474*
INVESTING ACTIVITIES				
Cash received				
Proceeds from sale of land and buildings		**18,725**	8,257	*42,215*
Proceeds from sale of financial investments		**1,175**	2,393	-
Proceeds from sale of investment properties		**2,905**	-	-
Total cash received		**22,805**	10,650	*42,215*
Cash used				
Purchase of plant and equipment		**8,126**	9,423	*36,332*
Purchase of land and buildings		**88,949**	84,255	*96,221*
Purchase of leasehold improvements		**620**	1,577	*3,502*
Purchase of intangibles		**18,830**	11,901	*19,664*
Purchase of investment properties		**30,629**	3,720	*2,000*
Other		**40,000**	-	-
Total cash used		**187,154**	110,876	*157,719*
Net cash received/(used) for investing activities		**(164,349)**	(100,226)	*(115,504)*
FINANCING ACTIVITIES				
Cash received				
Contributed equity		**125,284**	95,225	*77,030*
Total cash received		**125,284**	95,225	*77,030*
Cash used				
Return of contributed equity	H2	**67,646**	64,845	-
Total cash used		**67,646**	64,845	-
Net cash received/(used) for financing activities		**57,638**	30,380	*77,030*
Net increase/(decrease) in cash held		**102,565**	(16,273)	-
Cash and cash equivalents at the beginning of the reporting period		**647,233**	663,506	*5,000*
Cash and cash equivalents at the end of the reporting period	D1.1	**749,798**	647,233	*5,000*

The above statement should be read in conjunction with the accompanying notes

Department of Finance
ADMINISTERED SCHEDULE OF COMPREHENSIVE INCOME
for the period ended 30 June 2017

			Actuals		Budget
			30 June	30 June	*30 June*
			2017	2016	*2017*
	Note ref		**$'000**	$'000	*$'000*
NET COST OF SERVICES					
Expenses					
Employee benefits	E1	B6	**195,099**	322,425	*239,821*
Superannuation expense	C3.1	B7	**8,961,212**	8,715,203	*7,876,521*
Supplier expenses					
Office expenses			**38,106**	38,893	*46,039*
Travel expenses		B6	**43,534**	61,392	*70,719*
Operating lease rentals			**39,842**	38,015	*33,038*
Communication and information technology			**24,681**	28,193	*25,018*
Property operating expenses			**11,565**	13,061	*7,935*
Outsource provider expenses			**5,467**	5,424	*4,727*
Superannuation administration costs			**9,924**	10,451	*10,280*
COMCAR operating expenses			**3,171**	3,321	*3,260*
Other goods and services			**16,598**	12,288	*23,343*
Investment funds - other expenses	C2.1		**22,294**	15,091	*31,486*
Distribution to portfolio special accounts	C2.1	B8	**83,469**	117,658	*476,697*
Depreciation and amortisation	D3.1		**11,965**	16,198	*20,691*
Investment funds - foreign exchange losses	C2.1		**6,925**	106,288	*-*
Non-financial asset write downs	D3.1		**2,215**	345	*106*
Impairment of financial assets	D1.3		**13**	2	*-*
Grants			**2,526**	2,991	*2,927*
Other expenses			**1,578**	2,301	*5,274*
Total expenses administered on behalf of Government			**9,480,184**	9,509,540	*8,877,882*
Income					
Non- taxation revenue					
Interest	D1.3		**30,193**	37,254	*9,924*
Investment funds - interest on term deposits	C2.1		**91,566**	98,946	*476,419*
Dividends	D1.3		**19,700**	16,100	*12,700*
Investment funds - dividends	C2.1		**13,228**	6,147	*-*
Rendering of services			**3,339**	15,785	*3,775*
Superannuation contributions	C3.1		**1,274,957**	1,338,231	*1,309,845*
Resources received free of charge	H2		**4,368**	4,302	*4,302*
Other revenue			**18,230**	5,428	*9,636*
Total revenue			**1,455,581**	1,522,193	*1,826,601*
Gains					
Gains from sale of financial assets	D1.3		**1**	-	
Gains from sale of non-financial assets			**2**	36	
Investment funds - gains on financial investments	C2.1		**439,306**	383,368	*52,136*
Other gains			**196**	970	
Total gains			**439,505**	384,374	*52,136*
Total income administered on behalf of Government			**1,895,086**	1,906,567	*1,878,737*
Net cost of services			**(7,585,098)**	(7,602,973)	*(6,999,145)*
Surplus/(deficit)			**(7,585,098)**	(7,602,973)	*(6,999,145)*

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

Department of Finance
ADMINISTERED SCHEDULE OF COMPREHENSIVE INCOME
for the period ended 30 June 2017

Administered Primary Schedules

	Note ref	Actuals 30 June 2017 $'000	30 June 2016 $'000	*Budget 30 June 2017 $'000*
OTHER COMPREHENSIVE INCOME				
Items not subject to subsequent reclassification to net cost of services				
Movement in carrying amount of superannuation	C3.1	**21,728,419**	(30,861,250)	-
Changes in asset revaluation reserves relating to				
Infrastructure, plant and equipment	D3.1	**1,461**	3,579	-
Leasehold improvements	D3.1	**8,672**	-	-
Makegood provisions		**-**	36	-
Items subject to subsequent reclassification to net cost of services				
Gains/(losses) on				
Available for sale financial assets	D1.3	**77,963**	22,347	-
Total other comprehensive income/(loss)		**21,816,515**	(30,835,288)	-
Total comprehensive income/(loss)		**14,231,417**	(38,438,261)	*(6,999,145)*

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

Department of Finance
ADMINISTERED SCHEDULE OF ASSETS AND LIABILITIES
as at 30 June 2017

			Actuals		Budget
			30 June	30 June	*30 June*
			2017	2016	*2017*
	Note ref		**$'000**	$'000	*$'000*
Assets					
Financial assets					
Cash and cash equivalents	D1.1		**937,956**	1,059,534	*-*
Trade receivables	D1.1		**721**	1,390	*7,083*
Investment funds - loans and receivables	C2.2	B8	**6,501,484**	4,259,529	*-*
State and Territory Government loans	D1.1		**139,752**	145,959	*139,749*
Accrued revenue	D1.1		**2,213**	1,533	*-*
Government securities	D1.1		**1,472**	1,472	*921*
Commonwealth corporate entities	D1.1	B9	**573,417**	400,454	*378,108*
Investment funds - financial assets at FVPL	C2.2	B8	**16,190,822**	12,494,544	*18,446,501*
Lease incentive assets			**58**	21	*-*
Other financial assets			**14,119**	11,304	*51,595*
Total financial assets			**24,362,014**	18,375,740	*19,023,957*
Non-financial assets					
Leasehold improvements	D3.1		**24,889**	18,460	*21,067*
Infrastructure	D3.1		**69,997**	67,374	*68,085*
Plant and equipment	D3.1		**4,157**	8,255	*-*
Intangible assets	D3.1		**1,071**	1,517	*2,033*
Prepayments			**3,491**	3,556	*3,971*
Total non-financial assets			**103,605**	99,162	*95,156*
Total Assets			**24,465,619**	18,474,902	*19,119,113*
Liabilities					
Trade creditors and accruals	D1.1		**12,418**	15,585	*9,033*
Investment funds - financial liabilities	C2.2	B8	**99,915**	21,859	*-*
Investment funds - derivative liabilities	C2.2	B8	**13,405**	26,314	*-*
Overnight cash balance payable	H2		**1,422,029**	1,560,747	*-*
Employee provisions	E2	B6	**237,009**	312,502	*248,756*
Superannuation provisions	C3.1	B7	**172,352,268**	189,367,538	*111,015,312*
Other provisions	D4		**18,314**	18,173	*14,666*
Other payables			**66,895**	10,498	*20,387*
Total liabilities			**174,222,253**	191,333,216	*111,308,154*
Net Assets			**(149,756,634)**	(172,858,314)	*(92,189,041)*

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

Department of Finance
ADMINISTERED RECONCILIATION SCHEDULE
for the period ended 30 June 2017

Administered Primary Schedules

		Actuals	
	Note ref	**30 June 2017 $'000**	30 June 2016 $'000
Opening assets less liabilities		**(172,858,314)**	(142,637,157)
Net (cost of)/contribution by services		**(7,585,098)**	(7,602,973)
Other comprehensive income/(loss)		**21,816,515**	(30,835,288)
Reserves transferred to Schedule of Comprehensive Income		**-**	-
Transfers (to)/from the Australian Government			
Appropriation transfers from OPA			
Annual appropriations		**298,706**	296,509
Administered assets and liabilities appropriations		**1,779**	1,149
Special appropriations	F2.1	**6,560,096**	6,218,020
Transfers to OPA		**(3,475,849)**	(3,394,851)
Transfers from OPA		**109**	894
Equity (distribution)/injection		**41,266**	(1,462,997)
Contributions from government to the investment funds	F3.2	**5,441,672**	6,598,851
OPA WoAG transfers			
Transfers from other entities	H2	**633,491,286**	610,652,954
Transfers to other entities	H2	**(633,488,802)**	(610,693,425)
Closing assets less liabilities		**(149,756,634)**	(172,858,314)

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

	Note ref	Actuals 30 June 2017 $'000	30 June 2016 $'000	Budget 30 June 2017 $'000
OPERATING ACTIVITIES				
Cash received				
Rendering of services		**3,995**	19,375	*3,775*
Superannuation contributions - employers		**1,270,538**	1,377,495	*1,431,477*
Superannuation funds contributions - members		**2,132,494**	1,953,089	*1,892,741*
Net gains from sale of financial instruments		**257,301**	234,377	*-*
Interest and dividends		**148,429**	153,092	*493,652*
Realised exchange gains		**208,954**	-	*-*
Net GST received		**802**	-	*-*
Other		**18,396**	6,729	*3,138*
Total cash received		**4,040,909**	3,744,157	*3,824,783*
Cash used				
Employees		**268,977**	264,538	*239,759*
Suppliers		**210,806**	218,715	*254,171*
Investment Funds distribution		**83,469**	117,658	*476,697*
Superannuation payments		**6,380,557**	6,040,352	*6,337,437*
Realised exchange losses		**-**	106,288	*-*
Grants		**1,800**	2,281	*2,927*
Net GST paid		**-**	377	*-*
Other		**612**	655	*7,376*
Total cash used		**6,946,221**	6,750,864	*7,318,367*
Net cash received/(used) for operating activities		**(2,905,312)**	(3,006,707)	*(3,493,584)*
INVESTING ACTIVITIES				
Cash received				
Proceeds from sale of plant and equipment		**17**	40	*-*
Proceeds from sale of financial investments		**19,960,339**	15,278,583	*2,618,546*
Repayments of advances and loans		**11,600**	11,300	*11,601*
Matured government securities		**-**	699	*-*
Proceeds from sale of non-financial assets		**-**	5	*-*
Total cash received		**19,971,956**	15,290,627	*2,630,147*
Cash used				
Purchase of plant and equipment		**1,405**	2,556	*4,822*
Purchase of leasehold improvements		**5,756**	4,221	*10,320*
Purchase of infrastructure		**1,352**	-	*-*
Purchase of intangibles		**57**	-	*-*
Purchase of financial investments		**25,866,742**	20,515,947	*5,724,176*
Total cash used		**25,875,312**	20,522,724	*5,739,318*
Net cash received/(used) for investing activities		**(5,903,356)**	(5,232,097)	*(3,109,171)*

The above statement should be read in conjunction with the accompanying notes

Department of Finance
ADMINISTERED CASH FLOW STATEMENT
for the period ended 30 June 2017

Administered Primary Schedules

		Actuals		Budget
		30 June	30 June	30 June
		2017	2016	2017
	Note ref	$'000	$'000	$'000
FINANCING ACTIVITIES				
Cash received				
Contributed equity		7,575,945	8,553,089	7,154,993
Total cash received		7,575,945	8,553,089	7,154,993
Cash used				
Equity distribution		3,189	1,462,997	2,110,364
Total cash used		3,189	1,462,997	2,110,364
Net cash received/(used) for financing activities		7,572,756	7,090,092	5,044,629
Net increase/(decrease) in cash held		(1,235,912)	(1,148,712)	(1,558,126)
Cash and cash equivalents at the beginning of the reporting period		1,059,534	1,084,959	-
OPA (WoAG)				
Transfers to other entities		(633,627,520)	(610,697,150)	-
Transfers from other entities		633,491,395	610,653,848	-
Total cash from/(to) OPA		(136,125)	(43,302)	-
Finance administered transfers				
Cash to OPA - appropriations		(3,475,849)	(3,394,851)	(3,367,834)
Cash from OPA - appropriations		4,726,308	4,561,440	4,925,960
Total cash from/(to) OPA		1,250,459	1,166,589	1,558,126
Cash and cash equivalents at the end of the reporting period	D1.1	937,956	1,059,534	-

The above statement should be read in conjunction with the accompanying notes

A. About This Report

The Department of Finance (Finance) is an Australian Government controlled not-for-profit entity with its purposes for 2016-17 being:

- budget and financial advice, management and reporting - support the Government to deliver its fiscal targets and policy objectives;
- governance - foster leading public sector practice;
- transformation - innovate and improve public sector operations and reform the management and operations of public assets; and
- services - manage efficient, cost-effective services to, and for, the Government.

Finance works collaboratively with the Department of Prime Minister and Cabinet (PM&C), the Department of the Treasury and the Australian Public Service Commission (APSC), to achieve these purposes.

Finance is structured to meet three outcomes per the 2016-17 PBS, with some amendments being applied in the 2016-17 PAES to reflect Machinery of Government Changes which occurred during the year. Comparatives have been amended for any changes in outcomes and programs.

Outcome/Program	How outcomes are achieved	Net contribution / (cost) of services [1]	
		30 June 2017	30 June 2016
Outcome 1: Support sustainable Australian Government finances through providing high quality policy advice and operational support to the government and Commonwealth entities to maintain effective and efficient use of public resources.			
1.1 Budget and Financial Management	• Advising the Finance Minister and Expenditure Review Committee (ERC) on fiscal and economic policies and related matters; • Supporting the Finance Minister in meeting his financial reporting responsibilities; and • Supporting the delivery of the Budget.	Departmental ($84.5m)	Departmental ($81.2m)
Outcome 2: Support an efficient and high-performing public sector through providing leadership to Commonwealth entities in ongoing improvements to public sector governance, including through systems, frameworks, policy, advice, and service delivery.			
2.1 Public Sector Governance	• Developing and maintaining the public sector resource management framework; • Improving the standard of governance, performance and accountability; and • Undertaking shareholder oversight of Government Business Enterprises (GBEs) and other commercial entities.	Administered $50.3m Departmental ($33.1m)	Administered $46.6m Departmental ($36.4m)
2.2 Transforming Government	• Providing leadership and supporting decision making relating to the digital economy and use of technology in government operations; and • Scoping divestment opportunities and managing asset sales and any residual issues arising from previous asset sales.	Departmental ($46.7m)	Departmental ($49.4m)
2.3 Property and Construction	• Providing policy advice, guidance and support on managing Commonwealth property, land and public works across the government; and • Managing specific major capital works projects and the government's non-Defence property portfolio within Australia.	Departmental $20.0m	Departmental $29.5m
2.4 Insurance and Risk Management	• Providing general insurance services and promoting risk management across the government through the Comcover Special Account.	Departmental ($35.0m)	Departmental $20.5m

2.5 Procurement Services	• Establishing WoAG arrangements for common goods and services to maximise market benefits for Commonwealth entities; and • Providing advice on advertising.	Departmental $2.9m	Departmental $5.8m
2.6 Service Delivery Office	• Providing certain corporate services to client Australian Government entities.	Departmental ($4.7m)	N/A
2.7 Public Sector Superannuation	• Advising the government on managing the Future Fund, the stability of the government's unfunded superannuation liabilities and its associated administered expense items and superannuation arrangements for government employees. This includes the administration and management of superannuation arrangements for Parliamentarians, as well as current and former Governors-General, Federal Judges and Federal Circuit Court Judges.	Administered ($7.7b) Departmental ($6.5m)	Administered ($7.4b) Departmental ($4.9m)
2.8 Australian Government Investment Funds	• Providing advice on investment mandates and governance arrangements for the government's Investment Funds, to maximise the value of the funds to the Government. This includes advice on credit of amounts to the Funds and payments from the Funds.	Administered $431.4m	Administered $249.4m
Outcome 3: Support for Parliamentarians and others as required by the Australian Government through the delivery of, and advice on, entitlements and targeted assistance.			
3.1 Ministerial and Parliamentary Services	• Providing advice on, access to and payment of parliamentary and post-parliamentary entitlements and targeted assistance to entities.	Administered ($376.4m) Departmental ($35.3m)	Administered ($524.4m) Departmental ($37.8m)

[1] Net cost of services includes depreciation and amortisation expense, the write-down and impairment of assets (or the reversal) and gains/losses from the sale of assets. It excludes revenue from government, income tax expense and other items recognised in other comprehensive income.

Finance's activities are classified as either Departmental or Administered. Departmental activities involve the use of assets, liabilities, incomes and expenses controlled or incurred by Finance in its own right.

Administered items are controlled by the government and managed or overseen by Finance on behalf of the government. These items are distinguished from Departmental items using shading.

In some areas of this financial report, Departmental and Administered items are included in the same section, this is for presentation purposes only and these balances should not be compared.

The continued existence of Finance in its present form and with its present programs is dependent on government policy and on continued funding by Parliament.

Basis of preparation

Finance's financial statements are required by section 42 of the PGPA Act. The financial statements are general purpose financial statements that have been prepared in accordance with the *PGPA (Financial Reporting) Rule 2015 (FRR)* and Australian Accounting Standards (AAS) and Interpretations issued by the Australian Accounting Standards Board (AASB) that apply for the reporting period. Finance has applied the Reduced Disclosure Requirements issued by the AASB as a minimum and has included additional disclosures for financial instruments, fair value and superannuation as required under subsection 18(3) of the FRR.

Basis of accounting

The financial statements have been prepared on an accrual basis and are in accordance with the historical cost convention, except for certain assets and liabilities at fair value.

All assets have been assessed for impairment at the end of the reporting period, and no impairment indicators exist unless otherwise stated.

How to read this report

The following pages set out the notes to the financial statements, which include further information required to understand the financial statements. This has been assessed against materiality and relevance to the operations, financial position and performance of Finance. All amounts are presented in Australian dollars (AUD) and are in whole dollars unless otherwise specified.

Key judgements and estimates

In applying Finance's accounting policies, management has made a number of judgements and applied estimates and assumptions to future events. Judgements and estimates that are material to the financial statements are found in the following notes:

C1: General insurance activities
C2: Investment funds
C3: Superannuation
D1: Financial instruments
D3: Non-financial assets
E2: Employee provisions

With the exception of judgements and estimates applied in the above notes, no allowance is made for the effect of changing prices on the results or the financial position.

Prior Year Adjustments

Prior year Departmental appropriation receivable relating to special accounts (non-capital) has been reclassified to cash and cash equivalents ($643.9 million) as a result of a change in the FRR. The change impacts the Departmental Statement of Financial Position, Cash Flow Statement, Financial Instruments (Note D1.1), Managing Financial Risk – Credit Risk (Note D2.3), Special Account (Note F3.1) and Appropriations (Note F1.2 reconciliation table).

Other minor changes were made to the comparatives in both the Departmental and Administered financial statements as a result of the reclassification of some line items.

New Australian Accounting Standards (AAS)

Adoption of AAS requirements
During 2016-17, Finance adopted all applicable AAS that became effective during 2016-17. The application of new standards did not materially impact the operations of Finance.

Future AAS requirements
The AASB has issued a number of new standards, amendments to standards and interpretations that are effective for future reporting periods. These new standards are not expected to have an impact on Finance's financial statements except for:

- *AASB 9 Financial Instruments* represents the finalisation of the three phase project to replace *AASB 139 Financial Instruments: Recognition and Measurement*. It incorporates new principles for the requirements for recognition, impairment and measurement of financial assets and liabilities and their de-recognition and general hedge accounting. This is likely to impact on the categorisation, recognition and measurement of financial instruments particularly those currently held at fair value through profit or loss (FVPL) or categorised as available for sale. The new standard is effective from 1 January 2018. This will result in Finance reviewing classification and disclosure of items currently included in Note D1 against Finance's business model for managing financial assets. Currently, Finance (Administered) manages investments funds (financial assets at FVPL) and has investments in Commonwealth corporate entities (available for sale financial assets).

- *AASB 16 Leases* will require lessees to recognise a right-of-use asset and a lease liability for all leases with a term of more than 12 months, unless the underlying asset is of low value. Lessor accounting under AASB 16 remains substantially unchanged from the predecessor standard *AASB 117 Leases*. Accordingly, lessors will continue to classify leases as operating or finance, and account for those two types of leases differently. A lessor is not required to make any adjustments on transition and shall apply the new standard from the date of its initial application. The new standard is effective from 1 January 2019. For all leases where Finance is lessee, a right of use asset and liability will be recognised on the balance sheet. Currently, Finance (Departmental) has leases for vehicles (predominantly pool vehicles) and properties that Finance occupy. Finance (Administered) manages leases for office premises and private plated vehicles on behalf of Parliamentarians and vehicles for Comcar car-with-driver services provided to Parliamentarians. Disclosures relating to the domestic property portfolio that Finance manages as lessor will require amendment including improved information about risk exposure.

B. Budgetary Variance Reporting

The following are explanations of events that have impacted on Finance's operations and activities for the year that were not provided for in the budget or otherwise included against relevant note disclosures. Users should note that a number of these items have been included in subsequent budgets. Budget numbers are sourced from Portfolio Budget Statements (PBS) for 2016-17 and are provided to the right of primary statements in italics to clearly distinguish them from actual results. Budgeted numbers are not audited.

Major variances are those deemed relevant to an analysis of Finance's performance by management and are not focussed merely on numerical differences between the actual and budgeted amounts. A note reference is included against the relevant primary statement/schedule line item which corresponds to the explanations provided below and elsewhere in the financial statements.

When providing explanations, Finance has identified the financial impact in relation to those key aggregates relevant to Finance's performance. Users should be aware that there will be consequential impacts on related statements i.e. a variance in the Statement of Comprehensive Income is likely to have consequential impacts in the Statement of Financial Position and the Cash Flow Statement.

The Statement of Financial Position budget for 2016-17 was prepared based on 2014-15 financial results, with adjustments for predicted or known movements at that time.

Note Reference	Affected line Items	Variance Reporting
B1: Centralised Procurement	Centralised procurement expense and revenue Unearned revenue Trade receivables	Centralised procurement expense and revenue variances to budget are mainly due to contracts and variations relating to both VSA and IBNCS that were finalised after the budget was set. Unearned revenue and trade receivables variances against budget are primarily due to the 2017-18 IBNCS agency invoices being issued one month earlier compared to prior financial years. This change of procedure was done to ensure a smooth transfer of the relevant components of Finance's CPCSA from Finance to DTA in 2017-18.
B2: Property	Land Buildings Investment properties Gains Asset revaluation reserves Domestic property portfolio expenses Other provisions	Property revaluation movements for 2016-17 include: - Revaluation gains in land and buildings largely due to Commonwealth Law Courts. Land increases impacted the Asset Revaluation Reserve while building gains were taken to Net Cost of Services to reverse prior year reductions. Other property movements during 2016-17 include: - Reclassification of John Gorton and Treasury land and buildings to investment property since Finance no longer occupies these premises. - Sale of properties as part of the divestment programme (net book value of assets disposed \$18.9m) with related sale proceeds of \$22.3m. Domestic property portfolio expenses are lower than budget due to expenses being classified as capital expenditure as well as budgeted works not undertaken on behalf of the Department of Immigration and Border Protection (DIBP) at Villawood. Other provisions variance to budget is mostly due to recognition of expenses to remediate Cox Peninsula offset by increases in remediation provision to reflect latest forecasts of costs.

B3: Insurance	Insurance claims expense Outstanding insurance claims liability	Variance to budget is due to an increase in the expected cost of a prior year liability claim, partially reduced by lower than expected new property claims for the current year. Variance to budget is due to new claims liabilities, and changes in assumptions and experience for prior year claims, which exceeded claim payments.
B4: Restructure of administrative arrangements	Rendering of services revenue Intangibles	During 2016-17, Finance had multiple restructure of administrative arrangement decisions that resulted in both functions assumed and functions relinquished. These restructures are not reflected in the PBS 2016-17 budget numbers. Please refer to Note C4: Restructuring for further details. Finance assumed responsibility for shared services functions from the Education and Employment portfolio departments on 1 December, now called the Service Delivery Office (SDO) and the Parliamentary Workflow System (PWS). Included in this transfer were Intangible assets of $4.4m for the SDO and $7.4m for PWS. Since shared services functions are cost recovered, rendering of services revenue for Finance has increased.
B5: Appropriation receivables	Special Account cash held in the OPA Special account capital receivable Other departmental undrawn	Variance to budget is mainly due to project delays pushing expenditure to later years on major departmental projects, and an underspend relating to the Moorebank project not reflected in the 2016-17 budget. These funds are no longer required and are pending return to the Official Public Account (OPA).
B6: Ministerial & Parliamentary Services	Employee benefits Employee provisions Travel expenses	Employee benefits and provisions variance to budget are chiefly due to a significant reduction in the provision for parliamentary retirement travel (formerly Life Gold Pass), as a consequence of the Royal Assent of the *Parliamentary Entitlements Legislation Amendment Act 2017*. This amendment in legislation included significant changes to parliamentary retirement travel. In addition, the decrease in the current year is caused by the reduction in the provision for Former Prime Ministers entitlements resulting from actuarial movements. These adjustments could not be predicted and therefore no allowance was made in the budget. Travel expenses variance to budget is mostly a result of the establishment of IPEA from 3 April 2017, with travel administration and processing one of the key functions that moved to IPEA.

B7: Superannuation	Superannuation expense Superannuation provisions	The Long Term Cost Report (LTCR) discount rate of 6% is used for budget purposes to reduce the volatility that would occur from year to year if the long-term government bond rate was used. Consistent with Australian Accounting Standards, the long-term government bond rate as at 30 June is used to calculate the superannuation liability and expense for the purpose of financial reporting. Any change in these rates for budget and financial reporting purposes significantly impacts on the superannuation provisions and superannuation expense.
B8: Investment funds	Distribution to portfolio special accounts. Net assets comprising: investment funds – loans and receivables and financial assets at FVPL offset by investment funds – financial liabilities and derivative liabilities	The DCAF net asset balance is higher than originally budgeted due to National Partnership Agreement (NPA) negotiations continuing and as a consequence payments are yet to be made to the states and territories or the Commonwealth.
B9: Investments in Commonwealth Corporate entities	Commonwealth corporate entities	In 2016-17, the ASC Group was restructured with critical infrastructure assets consolidated into Australian Naval Infrastructure Pty Ltd (ANI) with 100 per cent of the shareholding transferring to the Commonwealth in March 2017. Finance on behalf of the Commonwealth also made equity investments in both companies ASC Pty Ltd (ASC) and ANI in exchange for additional shares in 2016-17. More information on the valuation methodology applied is detailed in Note D1.1 under 'Key judgements and estimates'. These decisions and adjustments to investment values were not reflected in the budget.

C. General Business Disclosures

This section includes disclosures for operations which are significant in size and/or nature for Finance. In 2016-17, these areas include general insurance activities, the investment funds and superannuation.

C1 : General insurance activities

Finance provides insurance and risk management services to Australian General Government Sector entities. The classes of business cover include: Liability, Property, Motor Vehicle, and Personal Accident and Travel.

These services are funded from the Comcover Special Account (refer to Note F3.1).

Policy and measurement

Premium revenue
Premium revenue includes amounts charged but excludes GST. Premiums are recognised as revenue over the period insured which is from 1 July to 30 June each year.

Notional reinsurance expense
Finance pays a notional reinsurance charge of $5.0 million to the OPA which is recognised as an expense when paid.

Reinsurance and other recoveries
Reinsurance and other recoveries received or receivable in respect of gross claims paid and movements in reinsurance and other recovery assets are recognised as revenue in the year they occur.

Reinsurance and other recovery assets are actuarially assessed as the present value of the expected future receipts, calculated on the same basis as the outstanding claims liability.

Claims expense and outstanding claims liabilities
Claims expense represents claims payments and the movement in the gross outstanding claims liability.

The outstanding claims liability is actuarially assessed and measured at the central estimate of the present value of expected future payments of claims incurred at the reporting date with an additional risk margin to allow for inherent uncertainty in the central estimate. The expected future payments include those in relation to unpaid reported claims; claims incurred but not reported (IBNR); claims incurred but not enough reported (IBNER); and indirect expenses that are expected to be incurred in settling these claims. Changes in claims estimates are recognised in the surplus/deficit in the year in which the estimates are changed.

Assets backing general insurance liabilities
The balance of the Comcover Special Account and receivables from insurance activities are held to back general insurance liabilities. For further information in relation to the Comcover Special Account refer to Note F3.1.

Key judgements and estimates

Finance takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. The claim estimates and judgements are regularly evaluated and updated based on historical experience and other factors. However, given the uncertainty in the estimation process, it is likely that the final outcome will prove to be different from the original liability established.

Finance's activities are classified into two main categories: **Property** (Property, Motor Vehicle, and Personal Accident and Travel) and **Liability**. Different actuarial methods and assumptions are applied at a more granular level taking into account the characteristics of the class of business, claim type and the extent of the development of each past accident period.

The estimation of IBNR and IBNER are generally subject to a greater degree of uncertainty where claims notification and settlement may not happen for many years after the event giving rise to the claim. For this reason, Liability classes of business typically display greater variability between the initial estimates and final outcomes.

Key actuarial assumptions

The key actuarial assumptions for the determination of the outstanding claims liabilities are set out in the table below:

	30 June 2017		30 June 2016	
	Property	**Liability**	Property	Liability
Average discount rate	**1.9%**	**2.0%**	1.6%	1.7%
Average inflation rate	**2.2%**	**3.5%**	2.2%	3.5%
Average weighted term to settlement (years)	**1.5**	**2.1**	1.6	2.8
Expense rate	**1.8%**	**1.5%**	1.9%	3.1%
Risk margin	**16.4%**	**13.4%**	16.1%	19.6%

Process used to determine actuarial assumptions

Discount rate	To allow for the time value of money, projected payments are discounted at a risk free rate derived from market yields on Commonwealth Government securities at the reporting date.
Inflation rate	Claims inflation is incorporated into the resulting projected payments to allow for both expected levels of economic inflation and superimposed inflation. Economic inflation is based on economic indicators such as the consumer price index (CPI) and/or increases in average weekly earnings. Superimposed inflation is past claims inflation in excess of wage inflation. A review of past claims reveals no evidence of superimposed inflation.
Average weighted term to settlement	The average weighted term to settlement is based on historic payment patterns.
Expense rate	Claims handling expenses are calculated by reference to Finance's claims handling remuneration agreements for direct expenses and internal costs for indirect expenses.
Risk Margin	The risk margin is assessed by examining the historical variability of the claims experience, considering industry studies and benchmarks, and applying actuarial judgement, especially in respect of uncertainties not reflected in the claims data. This assessment is performed for each class of business. Diversification benefit is allowed for, with consideration given to industry studies and benchmarks.

Sensitivity analysis

Finance has conducted a sensitivity analysis to quantify the impact of changes in the key underlying assumptions on the surplus/(deficit). The sensitivity analysis has been performed for each variable independently of all other changes and is net of reinsurance and other recoveries. The table below describes how a change in each assumption will affect the surplus/(deficit).

		30 June 2017		30 June 2016	
		Property	**Liability**	Property	Liability
Assumption	**Movement**	**$'000**	**$'000**	$'000	$'000
Average discount rate	**1%**	**1,607**	**6,776**	1,716	6,635
	-1%	**(1,647)**	**(6,987)**	(1,788)	(7,007)
Average inflation rate	**1%**	**(1,627)**	**(6,818)**	(1,777)	(6,750)
	-1%	**1,618**	**6,744**	1,740	6,528
Average weighted term to settlement (years)	**+ 1 years**	**(291)**	**(4,755)**	(985)	(4,940)
	- 1 years	**347**	**4,894**	668	5,142
Expense rate	**1%**	**1,071**	**3,246**	1,080	2,352
	-1%	**(1,071)**	**(3,246)**	(1,080)	(2,352)
Risk margin	**1%**	**(937)**	**(2,907)**	(948)	(2,028)
	-1%	**937**	**2,907**	948	2,028

The movements are the absolute movement in the assumption (e.g. +1% increase in the expense rate for Property from 1.8% to 2.8%).

Insurance risk management

Finance is exposed to insurance risk, which is discussed below.

Objectives, policies and processes for managing insurance risk

Finance provides insurance and risk management services to deliver a net benefit to the Australian Government over the longer term. The transfer of insurance risk from participating general government sector entities offers the most comprehensive and cost effective approach to the management of risk exposures. The provision of a captive fund focuses on improving risk identification and management in entities and increases in transparency and accountability to the Australian Government and the public.

Key processes to manage insurance risk include:

- Detailed risk exposure surveys and benchmarking tools identifying insurable risks;
- Actuarial modelling of claims history, exposures and industry experience to provide an estimate of expected claims costs for the insured year and to assist in the determination of the annual premium collection;
- Claim management and investigation processes;
- Appointment of an independent actuary for valuation services of the outstanding claims liability;
- WoAG policy development and risk management education to improve risk awareness and capability of fund members; and
- Governance frameworks within Finance.

Concentration of insurance risk

No reinsurance policies were placed in 2016-17 (2015-16: nil), reflecting the capacity of the Australian Government to cost-effectively self-insure against infrequent large claims.

C1.1 Underwriting result

	Departmental	
	30 June 2017 $'000	30 June 2016 $'000
Direct premium revenue		
Premium revenue	**140,290**	125,149
Premium revenue eliminated on consolidation	**1,176**	1,163
Total direct premium revenue	**141,466**	126,312
Notional reinsurance expense	**(5,000)**	(5,000)
Net premium revenue	**136,466**	121,312
Net incurred claims		
Insurance claims	**(163,993)**	(94,295)
Reinsurance and other recoveries revenue	**1,823**	1,504
Total net claims	**(162,170)**	(92,791)
Other underwriting expenses	**(9,248)**	(8,061)
Underwriting result	**(34,952)**	20,460
Revenue from government	**9,067**	10,151
Operating surplus/(deficit)	**(25,885)**	30,611

C1.2 Net claims incurred

	30 June 2017			30 June 2016		
	Current year $'000	**Prior years $'000**	**Total $'000**	Current year $'000	Prior years $'000	Total $'000
Gross claims incurred						
Undiscounted	**103,563**	**59,764**	**163,327**	111,006	(25,830)	85,176
Discount and discount movement	**(5,658)**	**2,180**	**(3,478)**	(5,071)	10,356	5,285
Gross claims incurred discounted	**97,905**	**61,944**	**159,849**	105,935	(15,474)	90,461
Reinsurance and other recoveries						
Undiscounted	**(472)**	**(1,380)**	**(1,852)**	(372)	(825)	(1,197)
Discount and discount movement	**2**	**27**	**29**	1	(308)	(307)
Reinsurance and other recoveries discounted	**(470)**	**(1,353)**	**(1,823)**	(371)	(1,133)	(1,504)
Net claims incurred	**97,435**	**60,591**	**158,026**	105,564	(16,607)	88,957
Claims handling expense			**4,144**			3,834
Total net claims			**162,170**			92,791

The $60.6 million increase in prior years net claims incurred is due to valuation increases arising from adverse claims experience in the Liability claims category exceeding favourable claims experience in the Property claims category.

C1.3 Reinsurance and other recoveries receivable

	Departmental	
	30 June 2017 $'000	30 June 2016 $'000
Reinsurance and other recoveries		
Reinsurance and other recoveries	**6,368**	6,758
Discount to present value	**(404)**	(375)
Total reinsurance and other recoveries	**5,964**	6,383

C1.4 Outstanding claims liability

	Departmental	
	30 June 2017 $'000	30 June 2016 $'000
Gross claims liability - undiscounted	**393,671**	301,843
Discount to present value	**(15,363)**	(12,136)
Gross claims liability - discounted	**378,308**	289,707
Claims handling expense	**6,062**	7,875
Gross central estimate	**384,370**	297,582
Risk margin	**54,293**	55,005
Outstanding claims liability	**438,663**	352,587
Risk margin adopted	**14.1%**	18.5%
Probability of adequacy of the risk margin	**75%**	75%

Reconciliation of the movement in discounted outstanding claims liability

	30 June 2017			30 June 2016
	Property $'000	**Liability $'000**	**Total $'000**	Total $'000
Net outstanding claims liability at the beginning of the financial year	**109,650**	**236,554**	**346,204**	322,824
Incurred claims	**35,801**	**61,634**	**97,435**	105,564
Claims payments	**(24,224)**	**(47,307)**	**(71,531)**	(65,577)
Unwinding of discount	**1,377**	**2,832**	**4,209**	4,839
Risk margin release	**(2,654)**	**(7,718)**	**(10,372)**	(9,260)
Changes in assumptions and experience	**(11,280)**	**78,034**	**66,754**	(12,186)
Net outstanding claims liability at the end of the financial year	**108,670**	**324,029**	**432,699**	346,204
Reinsurance and other recoveries	**368**	**5,596**	**5,964**	6,383
Gross outstanding claims liability at the end of the financial year	**109,038**	**329,625**	**438,663**	352,587

C1.5 Claims development table

The following table shows the development of the estimated undiscounted outstanding claims relative to the ultimate expected claims for the 10 most recent accident years.

	Prior	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Estimate of net ultimate claims costs												
At end of accident year		48,840	45,062	50,778	121,801	61,550	66,779	114,162	102,138	91,686	86,286	
One year later		47,451	43,312	48,922	108,067	70,345	63,441	106,114	119,144	87,813		
Two years later		45,204	48,191	47,317	100,453	67,843	65,399	96,653	218,627			
Three years later		48,962	45,043	70,257	91,789	68,396	62,028	89,631				
Four years later		46,215	46,681	65,808	84,123	67,312	58,498					
Five years later		47,361	47,758	65,956	82,395	62,705						
Six years later		45,257	44,336	51,423	80,279							
Seven years later		43,452	44,757	49,163								
Eight years later		42,922	44,909									
Nine years later		42,661										
Estimate of net ultimate claims costs		42,661	44,909	49,163	80,279	62,705	58,498	89,631	218,627	87,813	86,286	
Cumulative payments		(42,514)	(44,654)	(46,878)	(76,972)	(48,391)	(44,963)	(49,559)	(52,168)	(25,589)	(9,486)	
Net claims liability - undiscounted	9,004	147	255	2,285	3,307	14,314	13,535	40,072	166,459	62,224	76,800	388,402
Discount to present value	(169)	(3)	(5)	(61)	(77)	(365)	(408)	(1,731)	(3,964)	(3,565)	(4,680)	(15,028)
Net claims liability - discounted	8,835	144	250	2,224	3,230	13,949	13,127	38,341	162,495	58,659	72,120	373,374
Claims handling expense												6,062
Net central estimate												**379,436**
Net risk margin												53,263
Total net outstanding claims liability												**432,699**
Reinsurance and other recoveries												5,964
Total gross outstanding claims liability												**438,663**

The claims development table discloses amounts net of reinsurance and other recoveries to give the most meaningful insight into the impact on surplus/(deficit).

C2 : Investment funds

Finance provides advice on investment mandates and governance arrangements for the investment funds. This includes advice on the credit of amounts to and debits for payment from the investment funds. The Future Fund Board of Guardians (the Board), supported by the Future Fund Management Agency (FFMA), is responsible for the management and investment of the assets of the investment funds. The investment funds consist of the following:

- **Building Australia Fund (BAF)** - an investment fund established by the *Nation-building Funds Act 2008* to make payments in relation to the creation or development of transport, communication, eligible national broadband network, energy and water infrastructure. The BAF is to be closed by 31 December 2017, subject to the passage of legislation.
- **Education Investment Fund (EIF)** - an investment fund established by the *Nation-building Funds Act 2008* to make payments in relation to the creation or development of higher education, research, vocational education and training, and eligible education infrastructure and to make transitional Higher Education Endowment Fund payments. The EIF is to be closed by 31 December 2017, subject to the passage of legislation.
- **DisabilityCare Australia Fund (DCAF)** - an investment fund established by the *DisabilityCare Australia Fund Act 2013* to reimburse the Commonwealth, States and Territories for costs incurred in relation to the *National Disability Insurance Scheme Act 2013.*
- **Medical Research Future Fund (MRFF)** - a financial asset fund established under *the Medical Research Future Fund Act 2015* to support medical research and innovation into the future. The MRFF commenced on 22 September 2015.

Key judgements and estimates

In applying Finance's accounting policies, management has made a number of judgements and applied estimates and assumptions to future events. Judgements and estimates which are material to the financial statements are located throughout the investment funds disclosure.

Policy and measurement

Investment Mandates were issued by the responsible Ministers on 14 July 2009 for the BAF and EIF and on 1 July 2014 for the DCAF. The Investment Mandates set a target benchmark return of the Australian three month bank bill swap rate + 0.3% per annum calculated on a rolling 12 month basis (net of fees). The Investment Mandates also require the Board to invest in such a way as to minimise the probability of capital losses over a 12 month horizon.

The Investment Mandate for the MRFF was issued by the responsible minister on 8 November 2015. This mandate states that the Board is to adopt an average return of at least the Reserve Bank of Australia Cash Rate target + 1.5 to 2.0% per annum, net of investment fees, over a rolling 10 year term as the benchmark return on the Fund. In targeting the benchmark return, the Board must determine an acceptable but not excessive level of risk measured in terms such as the probability of losses in a particular year.

All investments are designated as financial assets through profit or loss (FVPL) on acquisition. Subsequent to initial recognition, all investments held at FVPL are measured at fair value with changes in their fair value recognised in the Schedule of Comprehensive Income each reporting date. Investments are recognised and derecognised on trade date where purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned. Investments are initially measured at fair value, net of transaction costs that are directly attributable to acquisition or issue of the investment. Investments in collective investment vehicles are recorded at fair value on the date which consideration is provided to the contractual counterparty under the terms of the relevant subscription agreement. Any associated due diligence costs in relation to these investments are expensed when incurred.

The following methods are adopted by the investment funds in determining the fair value of investments:

- Listed securities, exchange traded futures and options and investments in listed managed investment schemes are recorded at the quoted market prices on relevant stock exchanges.
- Unlisted managed investment schemes and collective investment vehicles are re-measured by the investment funds based on the estimated fair value of the net assets of each scheme or vehicle at the reporting date.
  In determining the fair value of the net assets of unitised unlisted managed investment schemes and collective investment vehicles, reference is made to the underlying unit price provided by the manager (where available), capital account statements and the most recent audited financial statements of each scheme or vehicle.

Manager valuation reports are reviewed to ensure the underlying valuation principles are materially compliant with AAS and applicable industry standards including International Private Equity and Venture Capital Valuation Guidelines as endorsed by the Australian Private Equity and Venture Capital Association Limited.

- Derivative instruments including forward foreign exchange contracts, interest rate swaps, futures and forward contracts on mortgage backed securities are recorded at their fair value on the date the contract is entered into and are subsequently re-measured to their fair values at each reporting date. Further disclosures regarding the use of derivatives by the investment funds is presented in Note C2.3.
- Asset backed securities, bank bills, negotiable certificates of deposit, mortgaged backed securities, government securities and corporate debt securities which are traded in active markets are valued at the quoted market prices. Securities for which no active market is observable are valued at current market rates using broker sourced market quotations and/or independent pricing services as at the reporting date.

MRFF Investment Companies (MRFFICs)

Whilst all investments are held by the Board in respect of the relevant investment fund, some investments are indirectly held through wholly owned investment holding companies, MRFFICs. The MRFFICs are funded primarily via loan arrangements from the MRFF and each respective MRFFIC. These loans are designated as financial assets and measured at fair value with changes in their fair value recognised in the Schedule of Comprehensive Income each reporting date. Loan assets are repayable on demand. Interest rates are set on the loans having regard to the 10-year government bond rate in the market in which the underlying investment is made. As the MRFFICs hold a material portion of the investments of the investment funds, these are recorded on a net assets basis in Finance’s primary schedules. For risk management purposes these are disclosed by the underlying investment held by the MRFFICs as this provides users with more relevant information in relation to the investment portfolio and Finance’s exposure.

C2.1 Investment funds operating results

	BAF 30 June 2017 $'000	EIF 30 June 2017 $'000	DCAF 30 June 2017 $'000	MRFF 30 June 2017 $'000	Total 30 June 2017 $'000	Total 30 June 2016 $'000
Revenue						
Gains on financial instruments at FVPL						
Foreign exchange gains						
Realised foreign exchange gains	30,858	44,286	86,971	46,840	208,955	-
Net unrealised foreign exchange gains	6,930	12,140	28,986	-	48,056	93,134
Total foreign exchange gains	37,788	56,426	115,957	46,840	257,011	93,134
Interest bearing securities						
Bank bills and negotiable certificates of deposit	30,096	22,340	29,203	24,274	105,913	94,359
Mortgage backed securities	9,903	9,144	16,692	7,502	43,241	45,098
Corporate debt securities	13,282	17,015	34,187	16,904	81,388	78,197
Government debt securities	468	738	1,002	2,263	4,471	5,051
Asset backed securities	1,606	1,802	4,999	3,170	11,577	4,255
MRFFICs loans	-	-	-	5,084	5,084	488
Other income	702	956	4,809	(842)	5,625	6,932
Total interest bearing securities	56,057	51,995	90,892	58,355	257,299	234,380
Realised gains (losses)	9,481	22,154	11,779	56,778	100,192	299,578
Unrealised gains (losses)	(34,048)	(61,977)	(92,202)	13,031	(175,196)	(243,724)
Total gains on financial instruments at FVPL	69,278	68,598	126,426	175,004	439,306	383,368
Interest	24,057	23,740	29,023	14,746	91,566	98,946
Dividends and distribution income	-	-	-	13,228	13,228	6,147
Total revenue	93,335	92,338	155,449	202,978	544,100	488,461
Expenses						
Net realised foreign exchange losses	-	-	-	-	-	106,288
Net unrealised foreign exchange losses	-	-	-	6,925	6,925	-
Suppliers expenses	3,625	3,825	4,718	10,126	22,294	15,091
Total expenses	3,625	3,825	4,718	17,051	29,219	121,379
Net investment funds return	89,710	88,513	150,731	185,927	514,881	367,082
Distributions to portfolio special accounts	-	22,593	-	60,876	83,469	117,658
Net surplus	89,710	65,920	150,731	125,051	431,412	249,424

C2.2 Investment funds financial position

	BAF 30 June 2017 $'000	EIF 30 June 2017 $'000	DCAF 30 June 2017 $'000	MRFF 30 June 2017 $'000	Total 30 June 2017 $'000	Total 30 June 2016 $'000
Assets						
Financial assets designated at FVPL						
Interest bearing securities						
Bank bills	-	-	-	185,648	185,648	138,146
Negotiable certificates of deposit	1,468,548	1,199,830	4,320,250	1,077,549	8,066,177	4,513,442
Corporate debt securities	636,224	802,671	1,212,185	248,802	2,899,882	3,723,831
Mortgage backed securities	390,167	366,137	665,509	203,186	1,624,999	1,574,700
Government debt securities	44,909	62,133	135,341	87,210	329,593	728,976
Asset backed securities	104,920	136,913	440,733	205,102	887,668	629,208
Other fixed income securities	35,027	50,908	38,529	77,305	201,769	272,537
Other investment						
MRFFICs equities	-	-	-	92,306	92,306	54,302
MRFFICs loans	-	-	-	404,765	404,765	259,450
Listed equities and managed investment schemes	-	-	-	436,821	436,821	114,396
Collective investment vehicles	-	-	67,838	759,437	827,275	390,687
Restricted cash	2,442	3,953	7,513	102,404	116,312	-
Derivatives						
Currency contracts	15,994	24,665	54,169	22,045	116,873	90,385
Interest rate swap agreements	249	482	-	-	731	3,811
Credit default swaps	-	-	-	3	3	489
Forward contracts on mortgage backed securities	-	-	-	-	-	184
Total financial assets designated at FVPL	2,698,480	2,647,692	6,942,067	3,902,583	16,190,822	12,494,544
Loans and receivables						
Cash and cash equivalents	1,092,625	1,146,802	3,484,102	742,447	6,465,976	4,236,507
Interest receivable	1,929	1,937	3,995	1,461	9,322	8,341
Dividends and distribution receivables	-	-	-	1,833	1,833	1,591
Unsettled sales	-	-	9,576	10,833	20,409	11,607
Imputation credits refundable	-	-	-	3,944	3,944	1,483
Total loans and receivables	1,094,554	1,148,739	3,497,673	760,518	6,501,484	4,259,529
Total assets	3,793,034	3,796,431	10,439,740	4,663,101	22,692,306	16,754,073
Liabilities						
Financial liabilities designated at FVPL						
Derivatives						
Currency contracts	655	1,438	2,397	3,984	8,474	20,544
Interest rate swap agreements	423	807	-	75	1,305	3,687
Credit default swaps	-	-	-	3,626	3,626	2,083
Total financial liabilities designated at FVPL	1,078	2,245	2,397	7,685	13,405	26,314
Financial liabilities measured at amortised cost						
Trade creditors and accruals	953	1,037	1,373	2,533	5,896	5,470
Unsettled purchases	5,815	7,256	36,885	44,063	94,019	16,389
Total financial liabilities measured at amortised cost	6,768	8,293	38,258	46,596	99,915	21,859
Total liabilities	7,846	10,538	40,655	54,281	113,320	48,173
Net assets	3,785,188	3,785,893	10,399,085	4,608,820	22,578,986	16,705,900

Collective investment vehicles

The investment funds, directly and via the MRFFICs have committed to provide capital to various collective investment vehicles. The total of these commitments at balance date is $95 million (2016: $40 million). The investment fund's commitments, being capital calls, are set out in the various underlying subscription documents. While the actual timing of the capital calls to be made by the managers of these vehicles is uncertain, as it is dependent on the managers sourcing suitable investment opportunities, the investment funds have recorded the commitments as being current in accordance with the underlying legal documents. The investment funds have appropriate liquidity planning in place to ensure a suitable allocation of resources will be available to cover these future commitments of capital.

The table below provides more detailed information on the commitments and outstanding calls of collective investment vehicles held directly by the MRFF, DCAF and via MRFFICs at balance date:

Description of underlying Strategy	Capital committed as at 30 June 2017 local currency		Outstanding commitments as at 30 June 2017 AUD equivalent $'000	Net capital cost as at 30 June 2017 AUD equivalent $'000	Fair value as at 30 June 2017 AUD equivalent $'000
Directly held by MRFF and DCAF					
Debt	**AUD**	**200,000,000**	**-**	**200,000**	**212,777**
Debt	**USD**	**40,000,000**	**31,289**	**21,108**	**21,184**
Alternatives	**AUD**	**615,000,000**	**-**	**616,004**	**593,314**
Total			**31,289**	**837,112**	**827,275**
Via MRFFICs					
Alternatives	**AUD**	**75,000,000**	**-**	**81,073**	**73,533**
Alternatives	**USD**	**141,000,000**	**14,856**	**176,694**	**175,035**
Private equity	**AUD**	**36,275,000**	**16,591**	**19,684**	**20,552**
Private equity	**EUR**	**52,682,166**	**14,044**	**53,201**	**62,149**
Private equity	**USD**	**139,075,213**	**17,794**	**148,273**	**162,798**
Total			**63,285**	**478,925**	**494,067**

C2.3 Managing financial risk

The investment funds have entered into derivative contracts to manage their exposure to foreign exchange risk, interest rate risk, equity market risk and credit risk. The investment funds also use derivatives to gain indirect exposure to market risks. The use of derivative financial instruments by the investment funds is governed by the *Nation-building Funds Act 2008*, the *DisabilityCare Australia Fund Act 2013* and the *Medical Research Future Fund Act 2015*.

C2.3.1 Market risk

Market risk is the risk of loss arising from movements in the prices of various assets flowing from changes in interest rates and foreign currency.

Interest rate risk

Interest rate risk exposure

The investment funds are exposed to risk of loss arising from movement in the prices of various assets flowing through interest rate changes. The total exposure for each class of financial asset is set out below.

Financial assets exposed to interest rate risk	Floating interest rate	Fixed interest rate	Non-interest bearing	Total
2017	**$'000**	**$'000**	**$'000**	**$'000**
Cash and cash equivalents	**6,465,976**	**-**	**-**	**6,465,976**
Interest bearing securities	**3,772,130**	**10,423,606**	**-**	**14,195,736**
Other financial assets	**-**	**-**	**2,030,594**	**2,030,594**
Total investment	**10,238,106**	**10,423,606**	**2,030,594**	**22,692,306**
Total interest rate swaps (notional amount)				
Pay	**(245,922)**	**(114,428)**	**-**	
Receive	**114,428**	**245,922**	**-**	
2016				
Cash and cash equivalents	4,236,507	-	-	4,236,507
Interest bearing securities	4,335,503	7,245,337	-	11,580,840
Other financial assets	-	-	936,726	936,726
Total investment	8,572,010	7,245,337	936,726	16,754,073
Total interest rate swaps (notional amount)				
Pay	(78,754)	(168,092)	-	
Receive	168,092	78,754	-	

Interest rate derivative contracts

The investment funds had open positions in exchange traded interest rate futures contracts and interest rate swap agreements at reporting date. Interest rate derivatives contracts are used by the investment fund's managers to manage the exposure to interest rate risk and to ensure it remains within approved limits. The notional value of the open contracts and their fair value are set out below.

	Notional value 30 June 2017 $'000	**Fair market value 30 June 2017 $'000**	Notional value 30 June 2016 $'000	Fair market value 30 June 2016 $'000
Open contracts				
Buy domestic interest rate futures contracts	**243,344**	**(2,591)**	420,405	1,784
Sell domestic interest rate futures contracts	**(180,967)**	**443**	(134,984)	(115)
Buy international interest rate futures contracts	**1,221,606**	**(4,108)**	509,630	(3,313)
Sell international interest rate futures contracts	**(2,852,079)**	**79,650**	(2,528,442)	49,096
Receiver (fixed) interest rate swap agreements	**245,922**	**(200)**	78,754	3,811
Payer (fixed) interest rate swap agreements	**(114,428)**	**(374)**	(168,092)	(3,687)
Buy forward contracts on mortgage backed securities	**-**	**-**	63,833	187
Sell forward contracts on mortgage backed securities	**-**	**-**	(2,787)	(3)
Total open contracts		**72,820**		47,760

Interest rate sensitivity analysis

The impact of a change in interest rates is disclosed in the table below, with all other variables held constant. The table demonstrates the impact on the operating result of a 30 basis point (2016: 30 basis point) change in bond yields with all other variables held constant. It is assumed that the 30 basis point change occurs as at the reporting date and there are concurrent movements in interest rates and parallel shifts in the yield curves. A 30 basis point movement would impact on the debt portfolios' (including derivatives) contribution to the investment fund's operating result. The impact on the operating result includes the increase/(decrease) in interest income on floating rate securities from the basis point change.

Sensitivity by year	Risk variable	Change in risk variable %	Net cost of services $'000
2017	**Discount rate**	**+0.3%**	**28,426**
		-0.3%	**(25,210)**
2016	Discount rate	+0.3%	9,297
		-0.3%	(8,262)

Foreign currency risk

The investment funds undertake certain transactions denominated in foreign currencies and are therefore exposed to the effects of exchange rate fluctuations. Exchange rate exposures are managed utilising forward foreign exchange contracts. The exposure in AUD equivalents to foreign currency risk at reporting date is as follows.

Financial assets exposed to currency risk 2017	USD $'000	EURO $'000	GBP $'000	Other $'000	Total $'000
Cash and cash equivalents	**166,145**	**145,664**	**17,409**	**2,664**	**331,882**
Interest bearing securities	**2,588,045**	**786,828**	**935,295**	**487,845**	**4,798,013**
Listed equities	**176,180**	**35,579**	**18,735**	**57,021**	**287,515**
Collective investment vehicles	**359,017**	**62,149**	**-**	**-**	**421,166**
Other investments	**(3,843)**	**(184)**	**86**	**(203)**	**(4,144)**
Receivables	**10,202**	**393**	**105**	**72**	**10,772**
Payables	**(62,422)**	**(1,909)**	**(5,169)**	**(12,766)**	**(82,266)**
Total physical exposure	**3,233,324**	**1,028,520**	**966,461**	**534,633**	**5,762,938**
Forward exchange contracts					
Buy foreign currency	**644,388**	**222,139**	**2,369**	**179,289**	**1,048,185**
Sell foreign currency	**(3,219,690)**	**(1,256,797)**	**(966,600)**	**(591,455)**	**(6,034,542)**
Total derivative exposure	**(2,575,302)**	**(1,034,658)**	**(964,231)**	**(412,166)**	**(4,986,357)**
Net exposure	**658,022**	**(6,138)**	**2,230**	**122,467**	**776,581**

Financial assets exposed to currency risk 2016					
Cash and cash equivalents	189,460	59,848	34,739	(9,715)	274,332
Interest bearing securities	2,299,678	840,596	734,972	750,879	4,626,125
Listed equities	880	-	-	-	880
Collective investment vehicles	227,276	73,653	-	-	300,929
Other investments	(1,507)	1,133	(221)	(981)	(1,576)
Receivables	11,197	417	7	(1)	11,620
Payables	(490)	-	(5,448)	(10,350)	(16,288)
Total physical exposure	2,726,494	975,647	764,049	729,832	5,196,022
Forward exchange contracts					
Buy foreign currency	690,496	224,773	5,849	2,995	924,113
Sell foreign currency	(3,031,318)	(1,194,599)	(771,607)	(653,436)	(5,650,960)
Total derivative exposure	(2,340,822)	(969,826)	(765,758)	(650,441)	(4,726,847)
Net exposure	385,672	5,821	(1,709)	79,391	469,175

Foreign currency sensitivity analysis

The sensitivity analysis table below demonstrates the impact on the operating result of a movement in the value of the AUD relative to the actual net exposures as at year end, with all other variables held constant.

Sensitivity by year	Risk variable	Change in risk variable	Net cost of services
		%	$'000
2017	**Exchange rate**	**+10.2%**	**168,120**
		-10.2%	**(168,120)**
2016	Exchange rate	+10.5%	89,666
		-10.5%	(89,665)

Other price risk

The MRFF and MRFFICs are exposed to price risk arising from equity investments. The equity price risk is the risk that the value of the MRFF equity portfolio will decrease as a result of changes in the levels of equity indices and the price of individual stocks. The MRFF and MRFFICs are held at FVPL. The exposure to equity price risk at the reporting date was as follows:

	30 June 2017 $'000
Domestic equities and managed investment schemes	**149,310**
International equities and managed investment schemes	**287,511**
Total equity price risk exposure	**436,821**

Equity derivative contracts

Equity futures are used to manage the exposure to equity price risk. The notional value and fair value of the MRFF open positions at 30 June 2017 are set out in the following table.

	Notional value 30 June 2017 $'000	Fair market value 30 June 2017 $'000
Buy domestic equity futures contracts	**1,553**	**(13)**
Buy international equity futures contracts	**289,362**	**(523)**
Total equity derivative contracts	**290,915**	**(536)**

Equity price sensitivity analysis

The analysis below demonstrates the impact on the MRFF and MRFFIC's operating result of the following movement.

- +/- 20% on Australian equities
- +/- 15% on International equities

The sensitivity analysis has been performed to assess the direct risk of holding equity instruments. The analysis is undertaken on the base currency values of the underlying exposures.

Impact on operating results	30 June 2017 $'000
20% increase in Australian equities	**36,497**
15% increase in International equities	**150,914**
Total	**187,411**
20% decrease in Australian equities	**(36,498)**
15% decrease in International equities	**(150,981)**
Total	**(187,479)**

C2.3.2 Liquidity risk

Liquidity risk is the risk that the investment funds will not be able to meet their obligations as they fall due. The Nation Building Funds (NBFs) and DCAF are currently invested in cash and cash like instruments under the current Investment Mandate. Accordingly, the risk of these funds not being able to meet their obligations is low. The MRFF must be in a position to meet the distribution payments required of it up to the amount periodically declared as distributable by the Board, which is managed under the Short-term Liquidity Risk Policy. This includes a short-term crash test which is applied to the portfolio to ensure it is able to meet its immediate cash flow obligations under a plausible but very severe market dislocation.

C2.3.3 Credit risk management

Credit risk is the risk of loss that arises from a counterparty failing to meet their contractual commitments in full and on time, or from losses arising from the change in value of a traded financial instrument as a result of changes in credit risk on that instrument. The Board sets limits on the credit ratings of debt investments when appointing investment managers. These limits are reflected in the underlying investment mandates and are monitored by the FFMA with compliance reported to the Board. The investment fund's maximum exposure to credit risk at reporting date in relation to each class of recognised financial asset is the carrying amount of those assets as indicated in the investment fund's financial position.

Interest bearing securities issued by	30 June 2017 $'000	30 June 2016 $'000
Commonwealth Bank of Australia	**5,129,916**	4,383,243
Westpac Banking Corporation	**2,176,750**	1,338,045
National Australia Bank	**2,329,367**	1,628,136
Australia and New Zealand Banking Group	**4,066,284**	1,609,695
Total	**13,702,317**	8,959,119

As at 30 June 2017, the investment funds had an exposure of greater than 10% of its net assets to interest bearing securities issued by domestic banks and cash deposits held with banks. Exposures to individual counterparties greater than 5% of the net assets of the investment funds are identified in this table.

Credit exposure by credit rating

	30 June 2017 $'000	30 June 2016 $'000
Long-term rated securities		
AAA	**2,412,711**	2,183,656
AA	**6,719,131**	5,080,944
A	**2,673,234**	3,201,138
BBB	**48,901**	237,124
Below investment grade/not rated	**300,483**	292,349
Short-term rated securities		
A-1+	**8,251,826**	4,520,022
Other		
US Government Guaranteed	**255,427**	302,115
Total debt securities held	**20,661,713**	15,817,348
Other non-debt financial assets	**2,030,593**	936,725
Total financial assets	**22,692,306**	16,754,073

The investment funds use Moody's and Standard & Poors credit rating scales to report exposure to credit risk. The long term credit risk exposures range from 'AAA' (extremely strong capacity to meet financial commitments) to 'below investment grade/not rated'. The investments classified as below investment grade are held in debt mandates. This table provides information regarding the credit risk exposures of the debt instruments held by the investment funds at reporting date according to the credit ratings of the underlying debt instruments.

Credit risk derivatives

The investment funds managers utilise credit default swaps to gain exposure to, and to hedge, credit risk. The investment funds transact in credit default swaps in the form of centrally cleared over-the-counter contracts. Centrally cleared transactions are cash margined at least daily. Managers are required to fully cash back all sold credit protection positions. Outstanding positions are marked to market and collateralisation of out of the money positions is required by the central clearing exchange.

	Notional value 30 June 2017 $'000	Fair market value 30 June 2017 $'000
Buy credit protection	**87,139**	**(3,626)**
Sell credit protection	**130**	**3**
Total	**87,269**	**(3,623)**

The notional value of the open credit default swap positions, the impact on increasing or reducing credit exposures and their fair value are set out in this table for the MRFF.

C3 : Superannuation

C3.1 Overview of schemes

Finance administers the following defined benefit superannuation schemes on behalf of the government:

- Commonwealth Superannuation Scheme (CSS), including the 1922 Scheme;
- Public Sector Superannuation Scheme (PSS);
- Parliamentary Contributory Superannuation Scheme (PCSS);
- Governor-General Pension Scheme (G-GPS);
- Judges' Pensions Scheme (JPS), and
- Federal Circuit Court Judges Death and Disability Scheme (FCCJDDS).

The CSS, PSS and PCSS are closed to new members.

Finance recognises an administered liability for the present value of the Australian Government's expected future payments arising from the PCSS, JPS, G-GPS and FCCJDDS and the unfunded components of the 1922 Scheme, CSS and PSS. These liabilities are based on an annual actuarial assessment. The funded components of these schemes are reported in the financial statements of the respective schemes. Finance also has the responsibility to record the Australian Government's transactions in relation to the above schemes.

Policy and measurement

Actuarial gains or losses are recognised in equity in the year in which they occur. Interest on the net defined benefit liability is recognised in the surplus/(deficit); the return on plan assets excluding the amount included in interest income is recognised in equity.

Superannuation liabilities are calculated annually as the present value of future benefit obligations less the fair value of scheme assets. The rate used to discount future benefits is determined by reference to the government bond rate at the reporting date.

Amounts recognised in the Schedule of Comprehensive Income and Schedule of Assets and Liabilities

			Other				
	CSS	**PSS**	**PCSS**	**G-GPS**	**JPS**	**FCCJDDS**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
30 June 2017							
Revenues	**102,724**	**1,171,578**	**655**	**-**	**-**	**-**	**1,274,957**
Expenses	**2,449,306**	**6,381,040**	**40,642**	**577**	**88,722**	**925**	**8,961,212**
OCI	**2,625,127**	**18,929,411**	**102,364**	**(851)**	**71,762**	**606**	**21,728,419**
Liabilities	**82,539,357**	**87,317,499**	**1,138,463**	**22,036**	**1,333,185**	**1,728**	**172,352,268**
30 June 2016							
Revenues	111,649	1,225,581	1,001	-	-	-	1,338,231
Expenses	2,970,646	5,608,162	48,356	773	86,562	704	8,715,203
OCI	(9,730,040)	(20,827,810)	(181,590)	(1,244)	(121,172)	606	(30,861,250)
Liabilities	86,124,618	100,612,550	1,242,850	22,168	1,363,326	2,026	189,367,538

C3.2 Scheme information

The funding arrangements for the various schemes are as follows:

Scheme	Funding arrangements
1922 Scheme	Unfunded. There are no longer any members contributing under this Act. Benefits are paid to members from the Consolidated Revenue Fund (CRF).
CSS and PSS	Partially funded. Contributions generally comprise basic member contributions and employer productivity (up to three per cent) contributions. Unfunded benefits are paid to members from the CRF.
PCSS	Unfunded. Member contributions are a fixed percentage of: parliamentary allowance; salary for Ministers of State; and allowance by way of salary for office holders, which is paid into the CRF. Unfunded benefits are paid to members from the CRF.
G-GPS, JPS and FCCJDDS	Unfunded. Members are not required to contribute towards the cost of their benefit during their term of appointment. Unfunded benefits are paid to members from the CRF.

The nature of the benefits provided under the schemes are as follows:

Scheme	Benefits Paid
1922 Scheme	• The benefit payable is a lifetime indexed pension (indexed in January and July) in line with changes in the CPI. The payments and liabilities in respect of these members are included in the CSS amounts.
CSS	• The types of benefits payable are a lifetime indexed pension (indexed in January and July) in line with changes in the CPI, a lifetime non-indexed pension and a lump sum payment. The main retirement benefit is the employer-financed indexed pension that is calculated by a set formula based on a member's age, years of contributory service and final salary. • Where a member has preserved their benefit in the scheme, when the benefit becomes payable the employer financed indexed pension is calculated by applying age-based factors to the amount of two and a half times the member's accumulated basic member contributions and interest. • Member’s basic contributions, employer productivity contributions and interest can be taken as a lump sum or an additional non-indexed lifetime pension. This benefit is determined by the value of contributions and investment returns, and in the case of the non-indexed pension by applying age-based factors.
PSS	• The types of benefits payable are a lifetime indexed pension (indexed in January and July in line with changes in the CPI) and lump sum. On retirement a lump sum benefit is payable which is calculated based on the member’s length of contributory membership, their rate of member contributions and final average salary (average of a member’s superannuation salary on their last three birthdays). • Where a member preserves their benefit in the scheme, generally the member’s lump sum benefit at that time is crystallised with the funded component of the benefit accumulating with interest and the unfunded component accumulating with changes in the CPI, until the benefit becomes payable. • Generally members can convert 50 per cent or more of their lump sum to a lifetime indexed pension. The indexed pension is calculated by applying age-based factors to the amount of lump sum to be converted to a pension.
PCSS	• The benefit payable is a lifetime pension or lump sum depending on length of service and additional offices held. • Where a retiring member has sufficient parliamentary service to meet the pension qualification period for a lifetime pension (which is payable as set out in the Act), pension benefits are expressed

	as a percentage of the superannuation salary applicable for the PCSS and are indexed by movements in that superannuation salary. • A PCSS member who qualifies for a pension can also elect to convert up to half of their benefit to a lump sum. Lump sum benefits are payable to PCSS members who do not have sufficient parliamentary service to qualify for a lifetime pension.
G-GPS	• The benefit payable is a lifetime pension equal to 60% of the salary of the Chief Justice of the High Court of Australia. • There is no minimum qualification period.
JPS	• The benefit payable is a lifetime pension equal to 60% of the judicial salary, payable where a judge has 10 or more years' service and is 60 years of age or older. • Provisions are made for part pension (pro-rated based on length of service) where a judge retires on reaching the maximum retirement age with at least 6 years but less than 10 years service.
FCCJDDS	• Federal Circuit Court Judges who retire due to permanent disability are provided with a pension equal to 60% of the salary the Judge would have received if they had not retired, and is payable until the earlier of the Judge attaining age 70, or his/her death. • In addition, a Judge continues to receive employer superannuation contributions in respect of this pension until they reach age 65.

Generally, benefits may also be payable to any surviving eligible spouse and children on the death of a member or pensioner.

Regulatory Framework

The following table details the enabling legislation for each of the individually disclosed defined benefit schemes and whether the scheme must comply with the requirements of the *Superannuation Industry (Supervision) Act 1993,* as well as a number of other Acts.

Scheme	Enabling Act	Period open to new members	Regulatory requirement
CSS	*Superannuation Act 1976*	1 July 1976 to 30 June 1990	Compliance with the *Superannuation Industry (Supervision) Act 1993* required for these schemes.
PSS	*Superannuation Act 1990*	1 July 1990 to 30 June 2005	
1922 Scheme	*Superannuation Act 1922*	1 July 1922 to 30 June 1976	These schemes are exempt from *Superannuation Industry (Supervision) Act 1993*.
PCSS	*Parliamentary Contributory Superannuation Act 1948*	Up to 8 October 2004	
G-GPS	*Governor-General Act 1974*	To present	
JPS	*Judges' Pensions Act 1968*	To present	
FCCJDDS	*Federal Circuit Court of Australia Act 1999*	To present	

Governance

The Commonwealth Superannuation Corporation (CSC) was established under the *Governance of Australian Government Superannuation Schemes Act 2011* and is the trustee for the CSS and PSS. CSC is responsible for:

- providing administration services for each scheme;
- management and investment of scheme assets;
- compliance with superannuation taxation and other applicable laws; and
- compliance with relevant legislation including the *Governance of Australian Government Superannuation Schemes Act 2011*.

CSC is supported by a custodian and other specialist providers.

The trustee for the PCSS is established by the enabling Act and comprises five trustees, being two Senators, two members of the House of Representatives and the Finance Minister. Finance acts as adviser to the Trust. The Secretary of Finance also has certain powers under the Act in relation to administration of the PCSS.

The enabling Acts for the 'other' defined benefit superannuation schemes confer certain powers to the Secretary of Finance in relation to administration of each scheme. Day-to-day administration of the schemes is undertaken by Finance.

C3.3 Risks and assumptions

The schemes are exposed to interest rate risk, investment risk, longevity risk and salary risk. The following pages identify and explain the amounts reported in these financial statements and detail the principal actuarial assumptions underpinning each of the major schemes, including an analysis of the sensitivity of changes in these assumptions to the amounts reported in the financial statements.

Composition of scheme assets

The fair value of scheme assets for CSS and PSS at 30 June 2017 is $20.4 billion (30 June 2016 was $19.6 billion). The assets are diversified in the following sectors: Australian equity 20%; International equity 23%; Property 10%; Private capital 6%; Infrastructure 3%; Corporate bonds 6%; Alternative strategies 14% and Cash and sovereign bonds 18%. This includes $287.1 million (2016: $465.9 million) of Commonwealth Government Bonds.

Key judgements and estimates

Principal actuarial assumptions are as follows:

	2017	2016
Discount rate[1]		
CSS	**3.0%**	2.7%
PSS and Other Schemes	**3.5%**	2.7%
Expected salary growth rate (CSS/PSS)	**2.0%pa to June 2019 3.5%pa thereafter +promotional increase**	2.0%pa to June 2019 4%pa thereafter +promotional increase
Expected pension increase rate (CPI)	**2.5%**	2.5%

[1] The release of a 30 year bond during the year has provided the opportunity to improve the matching of the liability duration of the individual schemes and the duration of Commonwealth issued bonds. This has resulted in the use of a different discount rate for CSS compared to the other schemes.

Other material assumptions
CSS, PSS, and PCSS
Assumptions have been made regarding rates of retirement, death (for active, preserved and pension members), mortality improvements, invalidity, resignation, retrenchment, retention and take up rates of pensions in the scheme. Assumptions have also been made for the ages of spouses and rates of member contributions. These assumptions are consistent to those used within the LTCR 2014.

Membership data as at 30 June 2016 has been rolled forward to 30 June 2017 by making allowance for estimated investment earnings, contributions, salary increases, benefit payments and benefit accruals, using the actuarial assumptions from the LTCR where other information is not available. The defined benefit obligation calculated is based on the rolled forward membership data that was then adjusted to reflect the difference between expected benefit payments and actual benefit payment to 30 June 2017.

The fair value of scheme assets as at 30 June 2017 (CSS and PSS only) were estimated using the unaudited net scheme assets available to pay benefits at 31 May 2017 rolled forward to 30 June 2017 with cash flow items provided by the CSC. An estimate of the actual rate of investment return earned by the scheme during June 2017 was used in determining the fair value of scheme assets.

Other Schemes – G-GPS, JPS and FCCJDDS
Membership data as at 31 May 2017 has been rolled forward to 30 June 2017. Other actuarial assumptions are consistent to those used within the LTCR.

Sensitivity analysis for significant actuarial assumptions

The impact of a change in the defined benefit obligation reported as at 30 June 2017 under several scenarios is presented below. The defined benefit obligation has been recalculated by changing the assumptions as outlined below, whilst retaining all other assumptions.

Assumption	Impact on defined benefit obligation					
	0.5% increase Movement in $'000			0.5% decrease Movement in $'000		
	CSS	PSS	Other	CSS	PSS	Other
Discount rate [1]	(5,270,031)	(9,791,412)	(168,885)	5,854,364	11,320,490	188,754
Salary growth rate	139,506	2,363,395	181,433	(133,602)	(2,211,991)	(164,190)
Pension increase rate	4,839,188	7,430,954	n/a	(4,419,636)	(6,675,455)	n/a

[1] An increase in the discount rate between financial years generates a decrease in the provision and a gain in other comprehensive income. Conversely, a decrease in the discount rate between financial years causes an increase in the defined benefit obligation (liability) and a loss to other comprehensive income.

C3.4 Commonwealth Superannuation Scheme (CSS)

Employer productivity contributions

The expected employer productivity contribution for 2018 is $12.3 million (2017 actual $14.0 million).

Maturity profile of defined benefit obligation

The weighted average duration of the defined benefit obligation is 13.2 years for CSS 1976 and 7.3 years for CSS 1922.

Reconciliation of the	Present value of the defined benefit obligation		Fair value of the scheme assets		Net defined benefit liability	
	30 June 2017 $'000	30 June 2016 $'000	**30 June 2017 $'000**	30 June 2016 $'000	**30 June 2017 $'000**	30 June 2016 $'000
Value at beginning of the year	**89,197,538**	80,288,765	**3,072,920**	3,490,457	**86,124,618**	76,798,308
Current service cost	**177,183**	192,944	**-**	-	**177,183**	192,944
Interest cost	**2,344,345**	2,898,414	**-**	-	**2,344,345**	2,898,414
Interest income	**-**	-	**72,222**	120,712	**(72,222)**	(120,712)
Total expense	**2,521,528**	3,091,358	**72,222**	120,712	**2,449,306**	2,970,646
Actual return on scheme assets less interest income	**-**	-	**162,175**	(82,340)	**(162,175)**	82,340
Actuarial (gains) / losses adjusted in other comprehensive income arising from						
Changes in demographic assumptions	**-**	-	**-**	-	**-**	-
Changes in financial assumptions	**(3,031,074)**	10,546,599	**-**	-	**(3,031,074)**	10,546,599
Liability experience	**568,122**	(898,899)	**-**	-	**568,122**	(898,899)
Total other comprehensive income	**(2,462,952)**	9,647,700	**162,175**	(82,340)	**(2,625,127)**	9,730,040
Contributions by scheme participants	**56,426**	61,993	**56,426**	61,993	**-**	-
Productivity contributions	**14,041**	17,265	**14,041**	17,265	**-**	-
Net appropriation from CRF	**-**	-	**3,409,440**	3,374,376	**(3,409,440)**	(3,374,376)
Benefits paid	**(3,993,754)**	(3,906,514)	**(3,993,754)**	(3,906,514)	**-**	-
Taxes, premiums and expenses paid	**(2,200)**	(3,029)	**(2,200)**	(3,029)	**-**	-
Value at end of the year	**85,330,627**	89,197,538	**2,791,270**	3,072,920	**82,539,357**	86,124,618

The fair value of scheme assets relates to investments in the Pooled Superannuation Trust (PST). These are disclosed as level 2 in the fair value hierarchy, where the net market value is derived from observable inputs (other than quoted prices) such as prices or derived from prices.

C3.5 Public Sector Superannuation Scheme (PSS)

Employer productivity contributions

The expected productivity contributions for 2018 is $167.9 million (2017 actual $172.8 million).

Maturity profile of defined benefit obligation

The weighted average duration of the defined benefit obligation is 20.3 years.

Reconciliation of the	Present value of the defined benefit obligation		Fair value of the scheme assets		Net defined benefit liability	
	30 June 2017 $'000	30 June 2016 $'000	**30 June 2017 $'000**	30 June 2016 $'000	**30 June 2017 $'000**	30 June 2016 $'000
Value at beginning of the year	**117,145,347**	91,382,837	**16,532,797**	16,583,042	**100,612,550**	74,799,795
Current service cost	**3,672,212**	2,864,799	**-**	-	**3,672,212**	2,864,799
Interest cost	**3,147,248**	3,351,821	**-**	-	**3,147,248**	3,351,821
Interest income	**-**	-	**438,420**	608,458	**(438,420)**	(608,458)
Total expense	**6,819,460**	6,216,620	**438,420**	608,458	**6,381,040**	5,608,162
Actual return on scheme assets less interest income	**-**	-	**1,056,557**	(382,259)	**(1,056,557)**	382,259
Actuarial (gains) / losses adjusted in other comprehensive income arising from						
Changes in demographic assumptions	**-**	-	**-**	-	**-**	-
Changes in financial assumptions	**(20,058,075)**	21,274,332	**-**	-	**(20,058,075)**	21,274,332
Liability experience	**2,185,221**	(828,781)	**-**	-	**2,185,221**	(828,781)
Total other comprehensive income	**(17,872,854)**	20,445,551	**1,056,557**	(382,259)	**(18,929,411)**	20,827,810
Contributions by scheme participants	**520,909**	533,697	**520,909**	533,697	**-**	-
Productivity contributions	**172,842**	188,761	**172,842**	188,761	**-**	-
Net appropriation from CRF	**-**	-	**746,680**	623,217	**(746,680)**	(623,217)
Benefits paid	**(1,810,227)**	(1,586,172)	**(1,810,227)**	(1,586,172)	**-**	-
Taxes, premiums and expenses paid	**(26,176)**	(35,947)	**(26,176)**	(35,947)	**-**	-
Value at end of the year	**104,949,301**	117,145,347	**17,631,802**	16,532,797	**87,317,499**	100,612,550

The fair value of scheme assets relates to investments in the PST. These are disclosed as level 2 in the fair value hierarchy, where the net market value is derived from observable inputs (other than quoted prices) such as prices or derived from prices.

C3.6 Other Schemes

For the purposes of disclosure, the smaller schemes have been grouped under "other":

	PCSS	G-GPS	JPS	FCCJDDS
	$'000	$'000	$'000	$'000
Expected benefit payments for 2018	42,903	1,572	49,924	518
	Years	Years	Years	Years
Maturity profile of defined benefit obligation	15.8	9.3	15.1	2.0

Reconciliation of the	Present value of the defined benefit obligation		Fair value of the scheme assets		Net defined benefit liability	
	30 June 2017 $'000	30 June 2016 $'000	30 June 2017 $'000	30 June 2016 $'000	30 June 2017 $'000	30 June 2016 $'000
Value at beginning of the year	2,630,370	2,280,245	-	-	2,630,370	2,280,245
Current service cost	61,087	53,685	-	-	61,087	53,685
Interest cost	69,779	82,710	-	-	69,779	82,710
Total expense	130,866	136,395	-	-	130,866	136,395
Actuarial (gains) / losses adjusted in other comprehensive income arising from						
Changes in demographic assumptions	-	-	-	-	-	-
Changes in financial assumptions	(210,924)	317,749	-	-	(210,924)	317,749
Liability experience	37,043	(14,349)	-	-	37,043	(14,349)
Total other comprehensive income	(173,881)	303,400	-	-	(173,881)	303,400
Net appropriation from CRF	-	-	91,943	89,670	(91,943)	(89,670)
Benefits paid	(91,943)	(89,670)	(91,943)	(89,670)	-	-
Value at end of the year	2,495,412	2,630,370	-	-	2,495,412	2,630,370

C4 : Restructuring

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

Finance assumed responsibility for shared services functions from the Education and Training and Employment portfolios following a restructure of administrative arrangements on 1 December 2016. Shared services functions transferred included financial and human resources services and the Parliamentary Workflow System.

Finance relinquished responsibility of functions associated with Whole of Australian Government Information and Communications Technology (WOAG ICT) policy, procurement and strategy-related functions to the Digital Transformation Agency (DTA) following a restructure of administrative arrangements on 27 October 2016. Relevant staff, appropriations, assets and liabilities were transferred in 2016-17; however, a final transfer of the relevant components of Finance's CPCSA will occur in 2017-18 following the establishment of the *DTA ICT Coordinated Procurement Special Account.*

Finance relinquished responsibility of functions associated with: auditing, reporting, providing advice and processing claims relating to travel expenses and allowances of parliamentarians and MOP(S) Act staff following a restructure of administrative arrangements on 3 April 2017. These functions were transferred to the Independent Parliamentary Expenses Authority (IPEA).

Prior year restructures included functions relinquished by Finance to PM&C and the DTA (formerly DTO) relating to the Gov 2.0 function (as part of restructure of administrative arrangements on 21 September 2015) and the transferring of the Boardlinks program to PM&C (following a restructure of administrative arrangements on 6 January 2016).

	Shared Services to Finance 30 June 2017 $'000	WoAG ICT to DTA 30 June 2017 $'000	Travel entitlements to IPEA 30 June 2017 $'000	Travel entitlements to IPEA 30 June 2017 $'000	Gov 2.0 to DTA 30 June 2016 $'000	Gov 2.0 to PM&C 30 June 2016 $'000
FUNCTIONS ASSUMED						
Assets recognised						
Appropriation and other receivables	5,221	-	-	-	-	-
Intangibles	11,818	-	-	-	-	-
Other non-financial assets	171	-	-	-	-	-
Prepayments	1,298	-	-	-	-	-
Total assets recognised	18,508	-	-	-	-	-
Liabilities recognised						
Payables	1,336	-	-	-	-	-
Employee provisions	3,130	-	-	-	-	-
Total liabilities recognised	4,466	-	-	-	-	-
Net assets/(liabilities) recognised	14,042	-	-	-	-	-
Income assumed						
Recognised by the receiving entity	15,184	-	-	-	-	-
Recognised by the losing entity	3,837	-	-	-	-	-
Total income for assumed function	19,021	-	-	-	-	-
Expenses assumed						
Recognised by the receiving entity [1]	17,359	-	-	-	-	-
Recognised by the losing entity	11,932	-	-	-	-	-
Total expenses for assumed function	29,291	-	-	-	-	-
FUNCTIONS RELINQUISHED						
Assets relinquished						
Receivables	-	3,443	1,027	107	431	24
Intangibles and prepayments	-	-	-	-	1,003	26
Total assets relinquished	-	3,443	1,027	107	1,434	50
Liabilities relinquished						
Payables	-	807	-	3,945	-	-
Employee provisions	-	2,636	1,027	617	431	24
Total liabilities relinquished	-	3,443	1,027	4,562	431	24
Net assets/(liabilities) relinquished	-	-	-	(4,455)	1,003	26

[1] Includes depreciation but excludes departmental overheads.

D. Operating Resources

This section provides further information about major assets and liabilities held or administered by Finance, significant estimates and judgements made and the management of risk in relation to these items.

D1 : Financial instruments

Policy and measurement

A financial instrument is a contract between entities that gives rise to a financial asset of one entity and a financial liability or equity instrument of the other entity. Generally, financial instruments are recognised and derecognised on 'trade date' which is the date that the risks and rewards of ownership are transferred to the 'buyer'. Finance classifies its financial instruments in the following categories:

- **Loans and receivable assets:** includes cash and cash equivalents which are readily convertible to cash, trade receivables, loans and other receivables with fixed or determinable payments that are not quoted in an active market.
- **Held-to-maturity investments:** non-derivative financial assets with fixed or determinable payments and fixed maturities that an entity has a positive intention and ability to hold to maturity.
- **Available-for-sale financial assets:** non-derivative financial assets that are either designated in this category or are not classified in any other category.
- **Financial assets/liabilities at FVPL:** assets and liabilities held for trading, or portions of an identified portfolio of financial instruments that are managed together and have a recent actual pattern of short term profit taking. Derivatives are classified as held for trading unless they are designated as hedges.
- **Financial liabilities held at amortised cost:** includes suppliers and other payables with a fixed or determinable amount to be paid that are not quoted in an active market.

All financial assets and liabilities are initially recognised at fair value (usually transaction price). For financial instruments not at FVPL, transaction costs are also added to the initial value.

Measurement	Type of financial instrument	Impairment (assessed annually)
At fair value, with all movements captured in the surplus/(deficit).	• Loans and receivables (short term). • Financial assets/liabilities at FVPL including any interest paid or earned.	N/A
At amortised cost using effective interest method, any valuation movement is recognised in the surplus/(deficit).	• Loans and receivables (long term). • Held-to-maturity investments. • Financial liabilities measured at amortised cost (supplier and other payables). • Interest and foreign exchange gains/losses on available for sale financial assets.	Impairment loss is measured as the difference between the carrying amount and the present value of discounted estimated future cash flows. Any asset impairment is shown as a reduction in the value of the asset by way of an allowance account, with the loss being recorded in the surplus/(deficit).
At fair value, with any valuation movement taken to equity (reserves).	• Available-for-sale financial assets, with the exception of interest and foreign exchange movements.	Any difference between the cost less principal repayments and amortisation, and the current fair value less any previous impairment loss, is transferred from equity to the surplus/(deficit).

In the following note disclosure, Departmental and Administered items are included together for presentation purposes only and these balances should not be compared.

D1.1 Categories of financial instruments

	Note ref	Departmental 30 June 2017 $'000	Departmental 30 June 2016 $'000	Administered 30 June 2017 $'000	Administered 30 June 2016 $'000
Financial Assets					
Loans and receivables					
Cash and cash equivalents	H2				
OPA balance	H2	**-**	-	**936,797**	1,058,038
Special Account cash held by Finance	F3.1	**9,162**	2,088	**-**	-
Operating cash balance		**1,618**	1,233	**1,159**	1,496
Special Account cash held in OPA	F3.1	**739,018**	643,912	**-**	-
Trade receivables		**74,299**	69,969	**721**	1,390
Investment funds - loans and receivables	C2.2	**-**	-	**6,501,484**	4,259,529
State and Territory Government loans		**-**	-	**139,752**	145,959
Accrued revenue		**11,770**	20,344	**2,213**	1,533
Total loans and receivables		**835,867**	737,546	**7,582,126**	5,467,945
Held-to-maturity investments					
Government securities		**-**	-	**1,472**	1,472
Total held-to-maturity investments		**-**	-	**1,472**	1,472
Available-for-sale financial assets					
Commonwealth corporate entities		**-**	-	**573,417**	400,454
Total available-for-sale financial assets		**-**	-	**573,417**	400,454
Financial assets designated at FVPL					
Investment funds - financial assets at FVPL	C2.2	**-**	-	**16,190,822**	12,494,544
Total financial assets designated at FVPL		**-**	-	**16,190,822**	12,494,544
Total financial assets		**835,867**	737,546	**24,347,837**	18,364,415
Financial Liabilities					
Financial liabilities measured at amortised cost					
Trade creditors and accruals		**49,771**	53,029	**12,418**	15,585
Investment funds - financial liabilities	C2.2	**-**	-	**99,915**	21,859
Finance leases		**6,475**	10,102	**-**	-
Total financial liabilities measured at amortised cost		**56,246**	63,131	**112,333**	37,444
Financial liabilities designated at FVPL					
Investment funds - derivative liabilities	C2.2	**-**	-	**13,405**	26,314
Total financial liabilities designated at FVPL		**-**	-	**13,405**	26,314
Total financial liabilities		**56,246**	63,131	**125,738**	63,758

Key judgements and estimates

Loans to state and territory governments
Concessional loan balances receivable from states and territories are measured at amortised cost and no security is held for these. Repayments are based on a reducing balance method. The amortised cost differs from fair value which has been disclosed under Note D1.2.

Investments in Commonwealth corporate entities (CCEs)
CCEs are 100% owned by the Commonwealth and managed by Finance on behalf of the Commonwealth. However, as the CCEs are not controlled by Finance the CCEs have been reported as investments and measured at fair value.

The following are details of all CCEs managed by Finance:

- CSC is a trustee and administrator of Commonwealth superannuation schemes. The value of CSC has been measured using the net assets (NET) reported in its audited accounts and internal management accounts. A change in the net assets would result in an equal change in reported fair value. Further information about CSC is included in Note C3.2.
- On 26 March 2017, the ASC Group was restructured, with the critical infrastructure assets consolidated into Australian Naval Infrastructure (ANI) Pty Ltd and 100 per cent of the shareholding of ANI transferred to the Commonwealth. The value of ANI has been measured using the net assets (NET) reported in the ANI 30 June 2017 balance sheet. A change in the net assets would result in an equal change in reported fair value.
- ASC Pty Ltd (ASC) provides ongoing capability for the through life support of the Collins class submarine and shipbuilder for the Air Warfare Destroyers. ASC has been measured using reporting date value of the future cash flows of the company sourced from the 2017-22 Corporate Plan and an extended forecast model out to 2027 based on information in the ASC internal valuation. This forecasting also takes into account the separation of ANI. These cash flows have been discounted using the weighted average cost of capital (WACC). The WACC is calculated based on a number of inputs derived from either professional judgement or observable historical market data of comparable entities. The impact of WACC changes is included as part of Market Risk analysis in Note D2.1.

D1.2 Fair value information by financial asset class

The following table sets out the fair value, valuation techniques and inputs used for Administered financial instruments. The techniques used to value financial instruments have not changed during the year.

Financial instruments have been valued using inputs under the following fair value hierarchy:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that Finance can access at measurement date.
- Level 2: observable inputs that are derived from prices in active markets.
- Level 3: inputs that are not observable and involve significant judgement.

Fair value measurements at the end of the reporting period

				Administered	
	Level	Inputs used	Valuation technique	**30 June 2017 $'000**	30 June 2016 $'000
Financial assets					
State and Territory Government loans	2	N/A	Income approach	**231,180**	244,520
Investments in CCEs	3	NET	Cost approach	**318,616**	38,181
Investments in CCEs	3	WACC	Income approach	**254,801**	362,273
Investment funds - financial assets at FVPL					
Investment funds- other investments	1	N/A	Market approach	**553,207**	120,380
Investment funds- interest bearing securities	2	PI[1]	Market approach	**14,195,737**	11,580,840
Investment funds- derivative assets	2	N/A	Market approach	**117,607**	94,869
Investment funds- other investments	2	N/A	Market approach	**2,875**	880
Investment funds- other investments	3	NET	Market approach	**1,321,396**	697,575
Total financial assets				**16,995,419**	13,139,518
Financial liabilities					
Investment funds - derivative liabilities	2	N/A	Market approach	**13,405**	26,314
Total financial liabilities				**13,405**	26,314

[1]Price Index (PI) values based on observable market data relating to prices, industry accepted pricing models and broker/dealer quotes

Movements of recurring level 3 financial assets

	Administered	
	30 June 2017 $'000	30 June 2016 $'000
Opening balance of investments in CCEs	**400,454**	378,108
Equity injections	**95,000**	-
Total gains/(losses) recognised in other comprehensive income	**77,963**	22,346
Closing balance of investments in CCEs	**573,417**	400,454
Opening balance of investment funds - financial assets at FVPL	**697,575**	-
Purchase	**656,697**	693,734
Sales	**(30,379)**	(6,219)
Total gains/(losses) recognised in net cost of services	**(2,128)**	10,060
Transfers into level 3	**(369)**	-
Closing balance of investment funds - financial assets at FVPL	**1,321,396**	697,575

D1.3 Net gains or losses on financial assets

		Departmental		Administered	
		30 June 2017	30 June 2016	**30 June 2017**	30 June 2016
	Note ref	**$'000**	$'000	**$'000**	$'000
Loans and receivables					
Interest revenue earned on:					
OPA deposits		**-**	-	**14,877**	21,307
Housing agreements		**-**	-	**5,515**	5,582
State and Territory Government loans		**-**	-	**9,707**	10,245
Other interest revenue		**8**	6	**-**	-
Impairment of financial assets		**(4)**	(826)	**(13)**	(2)
Net gains/(losses) on loans and receivables		**4**	(820)	**30,086**	37,132
Held-to-maturity investments					
Interest revenue earned on Government Securities		**-**	-	**94**	120
Net gain/(losses) on held-to-maturity investments		**-**	-	**94**	120
Available-for-sale financial assets					
Dividends		**-**	-	**19,700**	16,100
Investment funds - dividends	C2.1	**-**	-	**13,228**	6,147
Gain/(loss) recognised in equity		**-**	**-**	**77,963**	22,347
Gains from sale of financial assets					
Sale proceeds		**-**	-	**1**	-
Carrying value of asset sold		**-**	-	**-**	-
Previous revaluation gains recognised in equity		**-**	-	**-**	-
Net gains/(losses) from available-for-sale financial assets		**-**	-	**110,892**	44,594
Financial assets designated as FVPL					
Investment funds - foreign exchange losses	C2.1	**-**	-	**(6,925)**	(106,288)
Investment funds - interest on term deposits	C2.1	**-**	-	**91,566**	98,946
Investment funds - gains on financial investments	C2.1	**-**	-	**439,306**	383,368
Net gains/(losses) on financial assets designated as FVPL		**-**	-	**523,947**	376,026
Net gains/(losses) on financial assets		**4**	(820)	**665,019**	457,872

Policy and measurement

Foreign exchange gains/losses

All foreign currency transactions during the period are brought to account using the exchange rate in effect at the date of the transaction. Foreign currency items at reporting date are translated at the exchange rate existing at reporting date. Exchange differences are recognised in the surplus/(deficit) in the period in which they arise.

D2 : Managing financial risk

Finance is generally exposed to a low level of risk in relation to its financial instruments with the exception of the investment funds which are exposed to a moderate level of risk commensurate with the types of financial instruments held and the markets in which those instruments are traded. These risks are discussed as part of the investment funds (Note C2). Non-investment fund risks are discussed below.

D2.1 Market risk

Market risk refers to the risk that a change in market parameters will impact on assets held by Finance. Other than balances held by the investment funds, investments in CCEs and the OPA which are exposed to interest rate risk and foreign currency risk, Finance holds basic financial instruments that are not exposed to market risks. The following table discloses market risks in relation to the OPA and investments in CCEs. Disclosures in relation to the investment funds are included as part of Note C2.3.

Sensitivity analysis of interest rate risk exposure

			Effect on	
2017	**Risk variable**	**Change in risk variable**	**Surplus/ (deficit)**	**Equity**
		%	**$'000**	**$'000**
Overnight cash deposits with the RBA	**Deposit rate**	**+0.3%**	**3,521**	**-**
		-0.3%	**(3,521)**	**-**
Investments in CCEs	**Discount rate**	**+0.3%**	**-**	**(2,313)**
		-0.3%	**-**	**2,374**
2016		%	$'000	$'000
Overnight cash deposits with the RBA	Deposit rate	+0.3%	2,878	-
		-0.3%	(2,878)	-
Investments in CCEs	Discount rate	+0.3%	-	(3,187)
		-0.3%	-	3,235

D2.2 Liquidity risk

Liquidity risk is the risk that an entity will be unable to pay its debts when they fall due. As Finance is appropriation funded, the risk of Finance not meeting its obligations associated with financial liabilities is highly remote. Internal policies and procedures are also in place to ensure there are appropriate resources available to meet obligations. Finance's credit terms for goods and services are payment within 30 days. Disclosures in relation to the investment funds are included as part of Note C2.3.

D2.3 Credit risk

Credit risk is the risk that entities owing debts to Finance will not pay those debts as and when they fall due. Finance is exposed to a moderate level of credit risk in relation to the investment fund's assets; all other financial assets are considered to be low risk. Trade and other receivables (excluding State and Territory Government loans) have standard 30 days terms. Additional disclosures for the investment funds credit risk are included in Note C2.3.

Gross exposure to all credit risk and credit quality of financial assets

		Departmental		Administered	
	Note ref	**30 June 2017 $'000**	30 June 2016 $'000	**30 June 2017 $'000**	30 June 2016 $'000
Financial assets					
Not past due nor impaired					
Cash and cash equivalents		**749,798**	647,233	**937,956**	1,059,534
Trade receivables		**47,265**	68,417	**182**	815
Investment funds - loans and receivables	C2.2	**-**	-	**6,501,484**	4,259,529
Investment funds - financial assets at FVPL	C2.2	**-**	-	**16,190,822**	12,494,544
State and Territory Government loans		**-**	-	**139,752**	145,959
Accrued revenue		**11,770**	20,344	**2,213**	1,533
Government securities		**-**	-	**1,472**	1,472
Total not past due nor impaired		**808,833**	735,994	**23,773,881**	17,963,386
Past due or impaired					
Trade receivables		**27,034**	1,552	**539**	575
Total past due or impaired		**27,034**	1,552	**539**	575
Total financial assets		**835,867**	737,546	**23,774,420**	17,963,961
Ageing of financial instrument assets that were past due or impaired					
0 to 30 days		**26,911**	756	**10**	124
31 to 60 days		**18**	456	**8**	35
61 to 90 days		**7**	54	**94**	22
90+ days		**98**	286	**427**	394
Total past due but not impaired		**27,034**	1,552	**539**	575

D3 : Non-financial assets

Policy and measurement

Non-financial assets (excluding assets held for sale) are not expected to be sold or realised within the next 12 months.

Finance's asset recognition threshold is $5,000; all purchases under this threshold are expensed in the year of acquisition, other than when they form part of a group of similar items which are significant in total in which case they are recognised on a group basis.

Finance has a number of asset classes. The recognition and measurement policy for each is included below:

<table>
<tr><th>Asset class (includes work in progress)</th><th>Initial Recognition</th><th>Subsequent Recognition</th><th>Revaluation Frequency</th><th>Fair value measured at</th></tr>
<tr><td>Land</td><td rowspan="4">At cost.</td><td rowspan="4">Fair value.</td><td rowspan="4">Assessed annually by management to determine whether it is likely that the carrying amount is materially different from fair value. If likely, revaluations are conducted by independent valuers and revaluation adjustments are made on a class basis.</td><td>Market selling price.</td></tr>
<tr><td>Buildings</td><td>Market selling price, discounted cash flows or depreciated replacement cost.</td></tr>
<tr><td>Leasehold improvements</td><td>Depreciated replacement cost.</td></tr>
<tr><td>Infrastructure, plant and equipment</td><td>Market selling price or depreciated replacement cost.</td></tr>
<tr><td>Investment property</td><td>At cost, except where acquired at nominal cost, then fair value.</td><td>Fair value.</td><td>Annually.</td><td>Market selling price or discounted cash flows.</td></tr>
<tr><td>Intangibles (including internally developed and externally acquired software)</td><td>At cost.</td><td>Cost less accumulated amortisation and accumulated impairment losses.</td><td>N/A</td><td>N/A</td></tr>
</table>

Revaluation adjustments - Property, infrastructure, plant and equipment

The ARR is an equity account held at asset class level. The ARR cannot be negative, therefore when the values of assets reduce due to revaluation, the amount in excess of the ARR for that class of asset is posted directly to the surplus/(deficit). Similarly, an increase can only be recognised in the reserve once the previous decreases recognised in the surplus/(deficit) have been reversed to surplus/(deficit).

Revaluation adjustments - investment property

Gains or losses arising from changes in the fair value are recognised in the surplus/(deficit) in the year in which they arise.

Obligations relating to non-financial assets

Obligations relating to the dismantling, removal, remediation, restoration (also referred to as ‘make good’) and other expenditure associated with Finance's non-financial assets are included in the asset measurement when the recognition requirements for a provision are met. Details of provisions are disclosed in Note D4.

Depreciation/amortisation

Depreciable assets are written down to their estimated residual values over their estimated useful lives to Finance using the straight line method of depreciation. Depreciation rates are based on the following useful lives:

Asset class	2017 & 2016 (no change)
Buildings on freehold land	3 to 100 years
Leasehold improvements	Lesser of useful life or lease term
Intangibles	3 to 7 years
Infrastructure, plant and equipment	1 to 45 years

This policy is reviewed at each reporting date. If a change is deemed necessary, these are made in the current and future reporting periods as appropriate.

Assets held for sale

Assets held for sale includes properties that have been fully prepared for sale, are being actively marketed at fair value and are likely to settle within the next 12 months. Also included are properties that are currently under offer or contract (contract issued or exchanged but not yet settled) as at the end of the reporting period.

D3.1 Property, infrastructure, plant and equipment and intangibles

	Departmental							
	Land $'000	Buildings $'000	Leasehold improve-ments $'000	Invest-ment property $'000	Plant and equip-ment $'000	Intang-ible assets $'000	Total $'000
As at 1 July 2016							
Gross book value	**413,298**	**637,686**	**29,159**	**626,437**	**40,574**	**123,160**	**1,870,314**
Accumulated depreciation, amortisation and impairment	**-**	**-**	**-**	**-**	**(11,901)**	**(51,341)**	**(63,242)**
Opening balance as at 1 July 2016	**413,298**	**637,686**	**29,159**	**626,437**	**28,673**	**71,819**	**1,807,072**
Additions							
Purchase or internally developed	**-**	**88,949**	**620**	**30,629**	**8,126**	**18,830**	**147,154**
Transfers from agencies	**-**	**-**	**128**	**-**	**43**	**11,818**	**11,989**
Items recognised in equity							
Revaluations	**21,280**	**-**	**(12)**	**-**	**611**	**-**	**21,879**
Items recognised in NCOS							
Revaluations	**-**	**29,343**	**-**	**5,227**	**-**	**-**	**34,570**
Depreciation/amortisation expense	**-**	**(11,681)**	**(1,616)**	**-**	**(8,047)**	**(8,080)**	**(29,424)**
Transfers to assets held for sale	**(3,090)**	**-**	**-**	**-**	**-**	**-**	**(3,090)**
Disposals							
Transfers to agencies/restructuring	**-**	**(4,086)**	**-**	**-**	**-**	**-**	**(4,086)**
Write-offs	**(2,332)**	**-**	**-**	**-**	**(78)**	**-**	**(2,410)**
Reclassification	**(36,800)**	**(151,200)**	**(1,539)**	**188,000**	**1,539**	**-**	**-**
Other disposals	**(4,715)**	**-**	**-**	**(2,590)**	**-**	**-**	**(7,305)**
Closing balance as at 30 June 2017	**387,641**	**589,011**	**26,740**	**847,703**	**30,867**	**94,387**	**1,976,349**
Total as at 30 June 2017 represented by							
Gross book value							
Fair value (gross)	**387,641**	**499,195**	**28,300**	**847,703**	**30,623**	**-**	**1,793,462**
Internally developed software	**-**	**-**	**-**	**-**	**-**	**58,674**	**58,674**
Purchased software	**-**	**-**	**-**	**-**	**-**	**13,048**	**13,048**
Work in progress - at fair value	**-**	**89,816**	**36**	**-**	**244**	**-**	**90,096**
Work in progress - at cost	**-**	**-**	**-**	**-**	**-**	**76,514**	**76,514**
Accumulated depreciation, amortisation and impairment	**-**	**-**	**(1,596)**	**-**	**-**	**(53,849)**	**(55,445)**
Total as at 30 June 2017	**387,641**	**589,011**	**26,740**	**847,703**	**30,867**	**94,387**	**1,976,349**

Further information

Domestic property portfolio

Finance is responsible for the management of the Australian Government´s domestic non-defence property portfolio and the construction and delivery of domestic non-defence major capital works projects as directed by the government.

The government's non-defence domestic property portfolio currently has approximately 100 Commonwealth-owned properties across Australia. These include office buildings, law courts, special purpose facilities, heritage assets, vacant land and contaminated sites that have been classified as either investment properties, land, buildings, or assets held for sale.

Other assets
Other assets held by Finance include leasehold improvements, office equipment and information technology assets required to support the delivery of Finance outcomes and finance lease assets in relation to the electronic work environment.

	Administered				
	Leasehold improve-ments $'000	**Infrastructure $'000**	**Plant and equipment $'000**	**Intangible assets $'000**	**Total $'000**
As at 1 July 2016					
Gross book value	**52,628**	**67,374**	**17,468**	**3,182**	**140,652**
Accumulated depreciation, amortisation and impairment	**(34,168)**	**-**	**(9,213)**	**(1,665)**	**(45,046)**
Opening balance as at 1 July 2016	**18,460**	**67,374**	**8,255**	**1,517**	**95,606**
Additions					
By purchase	**5,756**	**1,352**	**1,405**	**57**	**8,570**
Items recognised in equity					
Revaluations	**8,672**	**3,341**	**(1,880)**	**-**	**10,133**
Items recognised in the surplus/(deficit)					
Depreciation/amortisation expense	**(6,575)**	**(2,070)**	**(2,817)**	**(503)**	**(11,965)**
Disposals					
Write-offs	**(1,424)**	**-**	**(791)**	**-**	**(2,215)**
Other disposals	**-**	**-**	**(15)**	**-**	**(15)**
Closing balance as at 30 June 2017	**24,889**	**69,997**	**4,157**	**1,071**	**100,114**
Total as at 30 June 2017 represented by					
Gross Book Value					
Fair value (gross)	**25,011**	**69,997**	**2,271**	**-**	**97,279**
Internally developed software	**-**	**-**	**-**	**165**	**165**
Purchased software	**-**	**-**	**-**	**72**	**72**
Work in progress - at fair value	**-**	**-**	**1,886**	**-**	**1,886**
Work in progress - at cost	**-**	**-**	**-**	**3,002**	**3,002**
Accumulated depreciation, amortisation and impairment	**(122)**	**-**	**-**	**(2,168)**	**(2,290)**
Total as at 30 June 2017	**24,889**	**69,997**	**4,157**	**1,071**	**100,114**

Further information

Administered non-financial assets include the Intra Government Communication Network (ICON), leasehold improvements and IT assets for electoral and state offices, and other information technology assets to support Administered outcomes.

D3.2 Fair value information by non-financial asset class

Key judgements and estimates

Valuation of land, buildings and investment properties
Independent valuations are obtained annually as at 30 June for land, buildings and investment properties. These valuations include calculations of estimated market cash flows which are adjusted to take into account physical, economic and external factors relevant to the asset under consideration. In relation to investment properties, allowances have been factored in for average vacancy periods and costs of establishing a new tenant, as leases become due for renewal and properties become vacant.

Valuation of leasehold improvements, plant and equipment
The estimated cost to replace the asset has been calculated and then adjusted to take into account obsolescence and physical deterioration (accumulated depreciation). The obsolescence has been determined based on professional judgement regarding physical, economic and external factors relevant to the asset under consideration. Leasehold improvements for One Canberra Avenue were valued on acquisition in 2016. An independent valuation in relation to all other leasehold improvements and plant and equipment was undertaken as at 30 June 2017.

Valuation of infrastructure
Finance manages a secure fibre network within the Australian Capital Territory known as the ICON. Replacement cost has been established based on contemporary technology and construction approaches. Significant judgement concerning the nature of the physical environment has been made to establish the adopted replacement cost. An independent valuation was undertaken as at 30 June 2017.

Highest and best use

Within the property portfolio, there are a small number of properties where the highest and best use differs from the current use, being:

- 7 vacant blocks which have a highest and best use of 'office buildings';
- 1 vacant block which has a highest and best use of 'rural residential';
- 1 property with an unusable building which has a highest and best use of 'community use'; and
- 1 property with an unusable building which has a highest and best use of ‘conservation’.

While the fair values for these properties has been measured in the financial statements using the highest and best use for each, they are not being utilised at their highest and best use as Finance is not in the business of development.

The following tables set out (by asset class) the valuation technique, inputs used, and the level of the fair value hierarchy per *AASB 13 Fair Value Measurement*.

Finance only holds non-financial assets that fall into the following two categories (or levels) of the fair value hierarchy:

- Level 2: observable inputs (other than quoted prices in active markets) are used to calculate the fair value of the asset; and
- Level 3: inputs used to calculate the fair value are not observable.

	Departmental						
Technique / inputs used / level	**Land**	**Buildings**	**Leasehold improve-ments**	**Invest-ment property**	**Plant and equip-ment**	**Assets held for sale**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Market Approach / AMT / 2	**174,997**	**6,105**	**-**	**63,590**	**13,490**	**4,317**	**262,499**
Cost Approach / RCN; CEB / 3	**-**	**-**	**26,740**	**-**	**17,377**	**-**	**44,117**
Cost Approach / RCN / 2	**-**	**284,706**	**-**	**-**	**-**	**-**	**284,706**
Income Approach / AMT / 2	**212,644**	**298,200**	**-**	**784,113**	**-**	**-**	**1,294,957**
Total assets at fair value 30 June 2017	**387,641**	**589,011**	**26,740**	**847,703**	**30,867**	**4,317**	**1,886,279**
Market Approach / AMT / 2	183,144	6,257	-	63,737	13,069	12,137	278,344
Cost Approach / RCN; CEB / 3	-	-	29,159	-	15,604	-	44,763
Cost Approach / RCN / 2	-	220,429	-	-	-	-	220,429
Income Approach / AMT / 2	230,154	411,000	-	562,700	-	-	1,203,854
Total assets at fair value 30 June 2016	413,298	637,686	29,159	626,437	28,673	12,137	1,747,390

	Administered			
Technique / inputs used / level	**Leasehold improvements**	**Infrastructure**	**Plant and equipment**	**Total**
	$'000	**$'000**	**$'000**	**$'000**
Cost Approach / RCN;CEB / 3	**24,889**	**69,997**	**-**	**94,886**
Market Approach / AMT / 2	**-**	**-**	**2,575**	**2,575**
Cost Approach / AMT;CEB / 3	**-**	**-**	**1,582**	**1,582**
Total assets at fair value 30 June 2017	**24,889**	**69,997**	**4,157**	**99,043**
Cost Approach / RCN;CEB / 3	18,460	67,374	-	85,834
Market Approach / AMT / 2	-	-	6,598	6,598
Cost Approach / AMT;CEB / 3	-	-	1,657	1,657
Total assets at fair value 30 June 2016	18,460	67,374	8,255	94,089

Inputs used

Replacement Cost of New Assets (RCN): the amount a market participant would pay to acquire or construct a new substitute asset of comparable utility.

Consumed Economic Benefits (CEB): obsolescence of assets, physical deterioration, functional or technical obsolescence and conditions of the economic environment specific to the asset.

Adjusted Market Transactions (AMT): market transactions of comparable assets, adjusted to reflect differences in price sensitive characteristics.

Recurring level 3 fair value measurements reconciliation

The recurring level 3 fair value measurements reconciliation is not materially different to the property, infrastructure, plant and equipment and intangibles movement table for both Departmental and Administered, refer to Note D3.1.

D4 : Other provisions

Policy and measurement

Finance recognises a provision when it has a legal or constructive obligation to make a payment, it is probable that payment will be made and the amount to be paid can be reliably measured.

In the following note disclosure, Departmental and Administered items are included together for presentation purposes only and these balances should not be compared.

	Departmental		Administered	
	30 June 2017 $'000	30 June 2016 $'000	**30 June 2017 $'000**	30 June 2016 $'000
Property				
Excess lease space	**203**	682	**1,513**	154
Provision for remediation costs	**8,612**	24,092	**5,509**	4,828
Other				
Act of Grace	**-**	-	**9,825**	11,533
Same Sex Relationships Act	**-**	-	**1,467**	1,658
Total other provisions	**8,815**	24,774	**18,314**	18,173
Movements of other provisions				
Opening balance	**24,774**	36,638	**18,173**	18,014
Additional provisions made	**4,291**	385	**3,169**	1,419
Amounts used	**(20,250)**	(10,577)	**(2,832)**	(259)
Amounts reversed	**-**	(1,672)	**(196)**	(1,001)
Closing balance	**8,815**	24,774	**18,314**	18,173

Further information

Remediation
Finance currently has agreements for the leasing of premises which have provisions requiring Finance to restore the premises to their original condition at the conclusion of the lease.

The domestic property portfolio managed by Finance has a small number of properties with potential remediation issues that are currently the subject of further investigation. A provision has been raised in relation to remediation of two properties.

Excess lease space
Finance has reviewed the leasing of all premises for surplus space and has recognised a provision in relation to seven Administered premises and one Departmental premise. Finance has made a provision to reflect the present value of this surplus space.

Act of Grace
The Act of Grace mechanism is a discretionary power found in section 65 of the PGPA Act, which allows payments to be made if it is appropriate and a decision maker considers there are special circumstances. In most cases these relate to pension payments to spouses of former members of the Commonwealth defined benefit superannuation schemes.

Same Sex Relationships Act
The *Same Sex Relationships (Equal Treatment in Commonwealth Laws – General Reform) Act 2008* removes discrimination against same-sex couples and their dependent children from a wide range of Commonwealth laws and programs. These relate to pension payments to partners of former members of the Commonwealth defined benefit superannuation schemes.

E. Our People

This section describes the employment and post-employment benefits provided to Finance employees engaged under the *Department of Finance Enterprise Agreement 2015-2018* and *Public Service Act 1999*.

As part of its Administered operations, Finance facilitates payment of salary and related benefits to staff employed by current and former Members of Parliament under the *Members of Parliament (Staff) Act 1984* (MOP(S) Act) as well as payment of post-employment benefits for former Parliamentarians and Prime Ministers under relevant legislation.

Superannuation payments made to former Commonwealth employees which are also administered by Finance on behalf of the Government are not included in the tables below. These are disclosed in Note C3.

In the following note disclosures, Departmental and Administered items are included together for presentation purposes only and these balances should not be compared.

E1 : Employee expenses

Policy and measurement

Personal leave
Personal leave is expensed in the year that it is taken.

Superannuation expense
Finance's staff are members of the CSS, PSS, PSSap, or other non-government superannuation funds. The CSS and PSS are defined benefit schemes. The PSSap is a defined contribution scheme. Finance makes employer contributions to employees' defined benefit schemes at rates determined by an actuary to be sufficient to meet the current cost to the Government. Finance accounts for these amounts as if they were contributions to defined contribution plans.

	Departmental		Administered	
	30 June 2017 $'000	30 June 2016 $'000	**30 June 2017 $'000**	30 June 2016 $'000
Wages and salaries	**127,734**	122,179	**187,882**	185,062
Superannuation expense				
Defined contribution plans	**13,991**	14,136	**30,247**	29,784
Defined benefit plans	**10,714**	10,297	**7,562**	6,870
Leave and other entitlements	**12,538**	20,422	**17,870**	14,805
Increase (decrease) in post-employment benefits liability[1]	**-**	-	**(75,596)**	62,878
Separations and redundancies	**2,952**	2,377	**10,296**	5,995
Other employee expenses	**689**	947	**16,838**	17,031
Total employee expenses	**168,618**	170,358	**195,099**	322,425

[1] The Royal Assent of the *Parliamentary Entitlements Legislation Amendment Act 2017* on 22 February 2017 included changes to parliamentary retirement travel resulting in a significant reduction to the provision for parliamentary retirement travel (formerly Life Gold Pass). The decrease in the current year is also caused by the reduction in the provision for former Prime Ministers entitlements following actuarial movements.

E2 : Employee provisions

Policy and measurement

Leave provisions

Leave provisions includes provisions for annual leave and long service leave (LSL).

Key judgements and estimates

Leave provisions

The provision for LSL for employees engaged under the *Public Service Act 1999* has been determined by reference to the short hand method as set out in the *Resource Management Guide No. 125 Commonwealth Entities Financial Statements Guide*. The estimate of the present value of the liability takes into account attrition rates and pay increases through promotion and inflation.

The provision for LSL for employees engaged under the MOP(S) Act is determined by reference to an actuarial assessment every three years, with the most recent assessment in 2017.

Post-employment benefits

Finance has made judgements in relation to the valuation of post-employment benefits such as entitlements of former Prime Ministers and former Senators and Members.

Changes to Life Gold Pass travel announced in the 2014-15 Budget came into effect during 2017 with the introduction of the *Parliamentary Entitlements Legislation Amendment Act 2017*. This legislation has resulted in significant reductions in Life Gold Pass (now parliamentary retirement) travel, as only retired former Prime Ministers and their spouse or de facto partner remain eligible for travel. The legislation was also renamed from *Members of Parliament (Life Gold Pass) Act 2002* to *Parliamentary Retirement Travel Act 2002*.

This provision will be transferred from Finance to IPEA following proclamation of the *Parliamentary Business Resources Act 2017*, expected by the end of 2017.

	Departmental		Administered	
	30 June 2017 $'000	30 June 2016 $'000	**30 June 2017 $'000**	30 June 2016 $'000
Leave provisions				
Long service leave	**35,101**	36,491	**14,147**	16,130
Other leave	**23,302**	25,058	**22,038**	19,335
Post-employment benefits	**-**	-	**200,824**	277,037
Total employee provisions	**58,403**	61,549	**237,009**	312,502

E3 : Key management personnel remuneration

Key management personnel (KMP) are those persons having authority and responsibility for planning, directing and controlling the activities of Finance. Finance has determined the KMP to be the Finance Minister, the Special Minister of State and the members of the Finance Executive Board which includes the Secretary, Deputy Secretaries, Chief Financial Officer and the First Assistant Secretaries of the Corporate Services and Information Technology and Workplace divisions. KMP remuneration is reported in the table below.

	Departmental **30 June 2017** **$**
Short-term employee benefits	
Salary	**2,392,122**
Executive vehicle scheme	**197,523**
Other benefits	**7,520**
Total short-term employee benefits	**2,597,165**
Post-employment benefits	
Superannuation	**427,551**
Total post-employment benefits	**427,551**
Other long-term benefits	
Annual leave	**266,823**
Long service leave	**225,281**
Total other long-term benefits	**492,104**
Total termination benefits	**-**
Total key management personnel remuneration[1]	**3,516,820**
Number of key management personnel included in the table above[2]	**10**

[1] The above KMP remuneration excludes the remuneration and other benefits of the Finance Minister and the Special Minister of State whose remuneration and other benefits are set by the Remuneration Tribunal and are not paid by Finance.
[2] This number includes staff who have been engaged by Finance for part of the year and therefore more than one individual may have filled a single position over the course of the year.

E4 : Related parties

Finance is an Australian Government controlled entity. Related parties to Finance are KMP including the Minister for Finance, the Special Minister of State, the Finance Executive Board and other Australian Government entities. KMP remuneration for members of the Executive Board is disclosed in Note E3.

Transactions with related parties

Finance undertakes a number of functions on behalf of the Australian government, as detailed in the financial statements. In performing these functions, Finance transacts with all other Australian Government controlled entities for normal day-to-day business operations provided under normal terms and conditions or on a cost recovery basis. This includes the payment of workers compensation and insurance premiums and collection of rental income. They are not considered significant individually to warrant separate disclosure as related party transactions.

F. Funding

Amounts appropriated for Departmental appropriations for the year (adjusted for any formal additions and reductions) are recognised as revenue from Government when Finance gains control of the appropriation. Appropriations receivable is recognised at the nominal amounts.

Administered appropriations are not recognised as revenue in the Schedule of Comprehensive Income. They are included in the Administered Reconciliation Schedule once they are recognised which is the date the amounts are drawn down to Finance's bank account for payment against the appropriation for annual and special appropriations or the date stated in the determination for other Administered amounts.

In the following note disclosure, Departmental and Administered items are included together for presentation purposes only and these balances should not be compared.

F1 : Annual appropriations

F1.1 Annual appropriations ('recoverable GST exclusive')

	Departmental		Administered	
	30 June 2017 $'000	30 June 2016 $'000	**30 June 2017 $'000**	30 June 2016 $'000
Ordinary annual services				
Annual Appropriation				
Ordinary annual services	**283,961**	271,152	**304,384**	287,148
Capital budget	**-**	-	**4,919**	4,832
Section 74 receipts of PGPA Act	**56,305**	58,956	**2,952**	312
Section 75 transfers of PGPA Act[1]	**614**	(837)	**(9,221)**	-
Total	**340,880**	329,271	**303,034**	292,292
Appropriation applied[2]	**(351,978)**	(319,077)	**(298,468)**	(296,821)
Variance	**(11,098)**	10,194	**4,566**	(4,529)
Other services				
Annual appropriation				
Equity injection	**69,808**	157,310	**-**	-
Assets and liabilities	**-**	-	**1,890**	1,759
Total	**69,808**	157,310	**1,890**	1,759
Appropriation applied[2]	**(127,968)**	(59,374)	**(1,779)**	(1,149)
Variance[3]	**(58,160)**	97,936	**111**	610

[1] Amount of $2.4 million was transferred to the DTA under a section 75 determination following the Administrative Arrangements Order of 27 October 2016. Amount of $2.2 million was transferred to IPEA under a section 75 determination following its establishment commencing 3 April 2017. Amount of $5.2 million was transferred from Departments of Education and Employment for the Shared Services Centre function commencing at Finance on 1 December 2016. For further information, refer to Note C4.

[1] Amount of $9.2 million was transferred to IPEA under a section 75 determination following its establishment commencing 3 April 2017.

[2] Appropriation applied includes cash payments made from current and prior year appropriations.

[3] The negative variance is due primarily to prior year appropriations being spent in the current year.

The following entities spent money from the CRF on behalf of Finance: CSC, Department of Defence and the Department of Parliamentary Services (DPS). The money spent has been included in the table above.

Departmental and Administered capital budgets are appropriated through Appropriation Acts (No.1, 3, 5). They form part of ordinary annual services, and are not separately identified in the Appropriation Acts.

F1.2 Unspent annual appropriations ('recoverable GST exclusive')

	Departmental		Administered	
	30 June 2017 $'000	30 June 2016 $'000	**30 June 2017 $'000**	30 June 2016 $'000
Appropriation Act (No. 2) 2012-13	**90**	90	**847**	847
Appropriation Act (No. 2) 2013-14[1]	**1,246**	1,246	**8,153**	8,153
Appropriation Act (No. 2) 2014-15	**-**	4,900	**16**	451
Appropriation Act (No. 2) 2015-16	**7,260**	107,508	**218**	1,562
Supply Act (No. 2) 2016-17	**20,207**	n/a	**697**	n/a
Appropriation Act (No. 2) 2016-17	**40,969**	n/a	**975**	n/a
Appropriation Act (No. 4) 2012-13[4]	**-**	-	**5,000**	5,000
Appropriation Act (No. 4) 2014-15	**-**	14,189	**-**	-
Appropriation Act (No. 4) 2015-16	**2,226**	2,226	**153**	153
Appropriation Act (No. 4) 2016-17	**n/a**	n/a	**218**	n/a
Appropriation Act (No. 1) 2013-14[2,5]	**7,064**	7,064	**480**	480
Appropriation Act (No. 1) 2014-15[6]	**-**	85,711	**174**	174
Appropriation Act (No. 1) 2015-16[6]	**3,168**	17,291	**105**	35,579
Appropriation Act (No. 1) 2016-17[3]	**100,006**	n/a	**24,653**	n/a
Appropriation Act (No. 3) 2013-14	**-**	4,345	**-**	-
Appropriation Act (No. 3) 2014-15[6]	**-**	-	**2,720**	2,720
Appropriation Act (No. 3) 2015-16[6]	**-**	2,186	**1,847**	2,125
Appropriation Act (No. 3) 2016-17	**2,955**	n/a	**11,194**	n/a
Appropriation Act (No. 1) 2014-15 - Capital[6]	**-**	8,810	**3,166**	3,166
Appropriation Act (No. 1) 2015-16 - Capital[6]	**-**	-	**3,189**	3,189
Supply Act (No.1) 2016-17 - Capital	**474**	n/a	**1,602**	n/a
Appropriation Act (No.1) 2016-17 - Capital	**474**	n/a	**2,869**	n/a
Total unspent appropriations	**186,139**	255,566	**68,276**	63,599

Reconciliation to appropriations receivable

The above unspent appropriations balance includes quarantined amounts and amounts reported elsewhere in the financial statements which are not considered to be available to Finance. In order to reconcile to the closing appropriations receivable balance, unspent amounts considered unavailable to Finance have been removed below:

	Departmental	
	30 June 2017 $'000	30 June 2016 $'000
Total unspent appropriations	**186,139**	255,566
Adjustments:		
Moorebank reallocation and terminated superannuation reforms measure	**(405)**	(405)
Strategic Reviews hand back	**(802)**	(802)
Cash at bank - 30 June	**(1,560)**	(1,597)
Expected GST refund outstanding at year end	**(1,588)**	(1,718)
Recorded against special accounts receivable in ledger	**(3,675)**	-
Recorded against capital receivable for special account in ledger	**(58,891)**	(73,112)
Transfer of function to PM&C (withheld under s. 51 of the PGPA Act)	**(6,262)**	(6,262)
Supplementation	**40,000**	1,000
Closing appropriations receivable balance	**152,956**	172,670

Other quarantined amounts and adjustments

These balances meet the definition of a receivable and therefore do not need to be adjusted out of unspent appropriations to reconcile to appropriations receivable.

[1] Balance includes quarantines for $0.4 million for Moorebank Unit Relocation and a terminated superannuation reforms measure.

[2] Balance includes a quarantine for $0.8 million for Strategic Reviews hand back.

[3] Balance includes cash at bank as at 30 June 2017 of $1.1 million plus expected GST refund of $1.6 million (2016: cash at bank $1.1 million, GST refund $1.7 million).

[4] Balance includes a quarantine for $5.0 million for Moorebank Unit Relocation.

[5] Balance includes a quarantine for $0.5 million as a result of a net appropriation decrease at additional estimates.
[6] The balances remaining in these appropriations have been withheld under s.51 of the PGPA Act as they are 2014-15 and 2015-16 Administered appropriations that are no longer required (the former s.11 process).

Note: Balances unspent against 2012-13 and 2013-14 appropriations are scheduled for repeal in 2017-18. Appropriations from 2014-15 onwards are part of the revised repeal process where appropriations will automatically repeal after 3 years (on 1 July each year).

F2 : Special appropriations

F2.1 Special appropriations ('recoverable GST exclusive')

	Appropriation Applied	
	30 June 2017 $'000	30 June 2016 $'000
Administered		
Medibank Private Sale Act 2006	**(474)**	(152)
Superannuation Act 1922	**(81,985)**	(90,133)
Superannuation Act 1976	**(4,291,400)**	(4,210,930)
Superannuation Act 1990	**(1,936,684)**	(1,697,599)
Governance of Australian Government Superannuation Schemes Act 2011	**(1,208)**	(634)
Parliamentary Contributory Superannuation Act 1948	**(42,665)**	(44,038)
Parliamentary Superannuation Act 2004	**(6,932)**	(6,039)
Members of Parliament (Life Gold Pass) Act 2002	**(564)**	(788)
Parliamentary Entitlements Act 1990	**(162,243)**	(170,960)
Governor-General Act 1974	**(1,561)**	(1,503)
Judges' Pensions Act 1968	**(47,101)**	(43,602)
Federal Circuit Court of Australia Act 1999	**(616)**	(527)
Public Governance, Performance and Accountability Act 2013 (PGPA Act)	**(109)**	(894)
Same-Sex Relationships (Equal Treatment in Commonwealth Laws – Superannuation) Act 2008	**(60)**	(59)
Commonwealth of Australia Constitution Act s.66 (Ministers of State Act 1952 s.5)	**(5,016)**	(4,900)
Total special appropriations applied[1]	**(6,578,618)**	(6,272,758)

[1]The difference between 'total special appropriations applied' above and the special appropriations reported in the Administered Reconciliation Schedule represents superannuation payments made that are yet to be reimbursed by entities who adopt a reimbursement basis to the Australian Government.

Superannuation Act 1976 and *Superannuation Act 1990*: Payments include amounts that are not an additional cost to the Australian Government and are funded through a special capital appropriation from a return of superannuation benefit funded component associated with retirements of scheme members and reimbursements from entities who adopt a reimbursement basis.

Governor-General Act 1974: Administered by Finance and PM&C.

Same-Sex Relationships (Equal Treatment in Commonwealth Laws – Superannuation) Act 2008 and Federal Circuit Court of Australia Act 1999: Administered by Finance and the Attorney General's Department.

Commonwealth of Australia Constitution Act s.66 (Minister of State Act 1952 s.5): For the 2016-17 reporting period this appropriation was limited to $5.5 million and the unspent balance of $0.5 million has lapsed.

CSC drew from the special appropriation authorised by the *Superannuation Act 1922, the Superannuation Act 1976, the Superannuation Act 1990, the Governance of Australian Government Superannuation Schemes Act 2011,* PGPA Act, s.77 and the *Same-Sex Relationships (Equal Treatment in Commonwealth Laws - Superannuation) Act 2008.* The money spent has been included in the table above.

The Department of the House of Representatives and the Department of the Senate drew from the special appropriation authorised by *the Parliamentary Superannuation Act 2004* and *Commonwealth of Australia Constitution Act* s.66 (*Ministers of State Act 1952*) salaries. The money spent has been included in the table above.

The Attorney-General's Department, the Department of Defence, the Department of Foreign Affairs and Trade, the Department of Parliamentary Services, the Department of the House of Representatives and the Department of the Senate drew from the special appropriation authorised by the *Parliamentary Entitlements Act 1990*. The money spent has been included in the table above.

From 3 April 2017, when IPEA was established, it drew from its own budget of the *Parliamentary Entitlements Act 1990*. The money spent has not been included in the table above.

Fair Work Commission drew from the special appropriation authorised by the *Judges Pension Act 1968*. The money spent has been included in the table above.

No investments were made under s.58 of PGPA Act however investments were made for the investment funds (under the *Nation-Building Funds Act 2008* s.32 & s.151), the MRFF (under the *Medical Research Future Fund Act 2015* s.37) and the DCAF (under the *DisabilityCare Australia Fund Act 2013* s.27). Refer to note C2 for further information.

F2.2 Disclose by agent in relation to annual and special appropriations ('recoverable GST exclusive')

		Appropriations applied	
	Relationship	**30 June 2017 $'000**	30 June 2016 $'000
Attorney-General's Department			
Total receipts	Solicitors-General pension payments	**441**	418
Total payments		**(441)**	(418)
Australian Secret Intelligence Organisation (ASIO)			
Total receipts	Commonwealth New Building Project	**-**	2,852
Total payments	undertaken on behalf of ASIO	**-**	(2,852)

F2.3 Compliance with statutory conditions for payments from the consolidated revenue fund

Section 83 of the Constitution provides that no amount may be paid out of the CRF except under an appropriation made by law. Finance in its central agency role provided information to all agencies in 2011 regarding the need for specific risk assessments in relation to section 83. It is not possible to fully remove the potential for section 83 breaches for all payments. In the vast majority of cases Finance relies on information provided by its clients to pay appropriate entitlements.

Ministerial and Parliamentary Services special appropriation payments under the *Parliamentary Entitlements Act 1990:*
For the period 1 July 2016 to 23 February 2017, Finance identified risks in relation to special appropriation payments under the *Parliamentary Entitlements Act 1990*. For this period, 16 breaches were identified; these amounted to $25,214 of which $24,941 has been recovered to date.

Legislation (*Parliamentary Entitlements Legislation Amendment Act 2017)* to remediate the risk of breaching section 83 of the Constitution received Royal Assent on 22 February 2017, with the change to the appropriation to address the risk of section 83 breaches taking effect on and from 23 February 2017.

Superannuation payments under the *Parliamentary Superannuation Act 2004*:
For the period 1 July 2016 to 30 June 2017, one breach relating to payments made under the *Parliamentary Superannuation Act 2004* was identified amounting to $1,306.92. As at 30 June 2017, the amount had not been recovered.

F3 : Special accounts

A special account is an appropriation mechanism that notionally sets aside an amount within the CRF to be expended for specific purposes. The type of appropriation provided by a special account is a special appropriation. The appropriation mechanism remains available until the special account is abolished. The amount of appropriation that may be drawn from the CRF, via a special account, is limited to the balance of the particular special account.

Finance has been appropriated under the PGPA Act, s.78 (Departmental) and s.80 (Administered) for expenditure up to the balance of each of the following special accounts.

F3.1 Departmental special accounts

	Comcover 30 June 2017 $'000	**Property 30 June 2017 $'000**	**BSSA 30 June 2017 $'000**	**CPCSA 30 June 2017 $'000**	**Total 30 June 2017 $'000**
Opening cash held by Finance	**1,478**	**198**	**-**	**412**	**2,088**
Opening cash in OPA	**433,065**	**156,676**	**5,856**	**48,315**	**643,912**
Opening capital appropriation receivable[1]	**-**	**82,420**	**-**	**-**	**82,420**
Balance brought forward	**434,543**	**239,294**	**5,856**	**48,727**	**728,420**
Appropriations credited	**9,067**	**123,375**	**-**	**4,151**	**136,593**
Other receipts	**143,758**	**93,141**	**-**	**241,756**	**478,655**
Payments made	**(91,095)**	**(272,314)**	**(5,856)**	**(167,332)**	**(536,597)**
Balance carried forward	**496,273**	**183,496**	**-**	**127,302**	**807,071**
Balance represented by					
Cash held by Finance	**1,914**	**2,367**	**-**	**4,881**	**9,162**
Cash held in OPA	**494,359**	**122,238**	**-**	**122,421**	**739,018**
Capital appropriation receivable[1]	**-**	**58,891**	**-**	**-**	**58,891**
Special account balance	**496,273**	**183,496**	**-**	**127,302**	**807,071**

	Comcover 30 June 2016 $'000	Property 30 June 2016 $'000	BSSA 30 June 2016 $'000	CPCSA 30 June 2016 $'000	Total 30 June 2016 $'000
Opening cash held by Finance	1,531	309	-	30	1,870
Opening cash in OPA	379,042	164,377	5,794	110,820	660,033
Opening capital appropriation receivable[1]	-	54,309	-	-	54,309
Balance brought forward	380,573	218,995	5,794	110,850	716,212
Appropriations credited	10,151	139,052	-	3,412	152,615
Other receipts	127,586	89,400	645	129,956	347,587
Payments made	(83,767)	(208,153)	(583)	(195,491)	(487,994)
Balance carried forward	434,543	239,294	5,856	48,727	728,420
Balance represented by					
Cash held by Finance	1,478	198	-	412	2,088
Cash held in OPA	433,065	156,676	5,856	48,315	643,912
Capital appropriation receivable[1]	-	82,420	-	-	82,420
Special account balance	434,543	239,294	5,856	48,727	728,420

[1] These amounts have been specifically appropriated for the purposes of the Property Special Account but remain undrawn against Appropriation Acts 2 and 4.

Comcover Special Account
Establishing Instrument: *Financial Management and Accountability Determination 2009/05 — Comcover Special Account Establishment 2009*. Purpose: For receipts and expenditure relating to the promotion of risk management to General Government Sector entities; to administer the Commonwealth's general insurance fund; and to make payments in respect of any uninsured superannuation liability claims against an insured Commonwealth entity. This account is non-interest bearing. The special account determination sunsets on 1 April 2019.

Notes to and forming part of the financial statements F. Funding

Property Special Account 2014

Establishing Instrument: *PGPA Act (Property Special Account 2014 – Establishment) Determination 04*. Purpose: Facilitates the management of the Commonwealth's non-Defence domestic property portfolio. This account is non-interest bearing. The special account determination sunsets on 1 April 2025.

Business Services Special Account (BSSA)

Establishing Instrument: *Financial Management and Accountability Determination 2006/64 — Business Services Special Account Establishment 2006*. Purpose: For expenditure relating to sentencing and disposing of records associated with the former Department of Administrative Services (DAS), managing and settling any personal injury and other legal claims arising from activities associated with the former DAS, and to conclude any other activity arising from the former DAS. This account is non-interest bearing. The special account ceased on 1 April 2017.

Coordinated Procurement Contracting Special Account (CPCSA)

Establishing Instrument: *Financial Management and Accountability Determination 2008/08 — Coordinated Procurement Contracting Special Account Establishment 2008*. Purpose: For expenditure relating to the Whole of Australian Government (WoAG) contract for providing fleet management and leasing services, centralised government advertising activities, and other co-coordinated procurement contracts for the benefit of government entities. The account is non-interest bearing. The special account determination sunsets on 1 October 2018.

F3.2 Administered special accounts

	BAF 30 June 2017 $'000	**EIF 30 June 2017 $'000**	**HHF 30 June 2017 $'000**	**DCAF 30 June 2017 $'000**	**MRFF 30 June 2017 $'000**	**Total 30 June 2017 $'000**
Balance brought forward	**-**	**-**	**-**	**-**	**-**	**-**
Increase						
Contribution from Government	**-**	**-**	**-**	**4,164,314**	**1,277,358**	**5,441,672**
Investment realised	**3,149,128**	**4,175,785**	**-**	**7,697,048**	**5,584,742**	**20,606,703**
Other receipts	**120,755**	**142,409**	**-**	**217,805**	**176,708**	**657,677**
Total increase	**3,269,883**	**4,318,194**	**-**	**12,079,167**	**7,038,808**	**26,706,052**
Decrease						
Purchase of investment	**(3,266,263)**	**(4,291,746)**	**-**	**(12,073,738)**	**(6,968,436)**	**(26,600,183)**
Other payments	**(3,620)**	**(26,448)**	**-**	**(5,429)**	**(70,372)**	**(105,869)**
Total decrease	**(3,269,883)**	**(4,318,194)**	**-**	**(12,079,167)**	**(7,038,808)**	**(26,706,052)**
Balance carried forward	**-**	**-**	**-**	**-**	**-**	**-**

	BAF 30 June 2016 $'000	EIF 30 June 2016 $'000	HHF 30 June 2016 $'000	DCAF 30 June 2016 $'000	MRFF 30 June 2016 $'000	Total 30 June 2016 $'000
Balance brought forward	-	-	-	-	-	-
Increase						
Contribution from Government	-	-	-	3,449,500	3,149,351	6,598,851
Investment realised	3,444,840	4,018,017	1,859,077	4,272,238	2,663,546	16,257,718
Other receipts	154,968	170,789	61,815	120,383	18,228	526,183
Total increase	3,599,808	4,188,806	1,920,892	7,842,121	5,831,125	23,382,752
Decrease						
Purchase of investment	(3,589,595)	(4,129,347)	(401,400)	(7,839,207)	(5,829,632)	(21,789,181)
Other payments	(10,213)	(59,459)	(1,519,492)	(2,914)	(1,493)	(1,593,571)
Total decrease	(3,599,808)	(4,188,806)	(1,920,892)	(7,842,121)	(5,831,125)	(23,382,752)
Balance carried forward	-	-	-	-	-	-

Building Australia Fund (BAF) Special Account
Establishing Instrument: *Nation-building Funds Act 2008*, s.13. Purpose: For making payments in relation to transport infrastructure, communications infrastructure (including the National Broadband Network), energy infrastructure and water infrastructure. The balance of the special account is invested by the Future Fund Board of Guardians. The Future Fund Board of Guardians may invest amounts standing to the credit of the special account in any financial assets, although the special account itself is non-interest bearing.

Education Investment Fund (EIF) Special Account
Establishing Instrument: *Nation-building Funds Act 2008*, s.132. Purpose: For making payments in relation to higher education infrastructure, research infrastructure, vocational education and training infrastructure, and any other eligible education infrastructure. The balance of the special account is invested by the Future Fund Board of Guardians. The Future Fund Board of Guardians may invest amounts standing to the credit of the special account in any financial assets, although the special account itself is non-interest bearing.

Health and Hospitals Fund (HHF) Special Account
Establishing Instrument: *Nation-building Funds Act 2008*, s.215. Purpose: For making payments in relation to health infrastructure. The Future Fund Board of Guardians may invest amounts standing to the credit of the special account in any financial assets, although the special account itself is non-interest bearing. This special account ceased 29 October 2015.

DisabilityCare Australia Fund (DCAF) Special Account
Establishing Instrument: *DisabilityCare Australia Fund Act 2013*, s.11. Purpose: For making reimbursements to State, Territory and Commonwealth Governments in relation to expenditure incurred under the *National Disability Insurance Scheme Act 2013*. The balance of the special account is invested by the Future Fund Board of Guardians. The Future Fund Board of Guardians may invest amounts standing to the credit of the special account in any financial assets, although the special account itself is non-interest bearing.

Medical Research Future Fund (MRFF)
Establishing instrument: *Medical Research Future Fund Act 2015*, s.14. Purpose: For making payments in relation to medical research and medical innovation. The balance of the special account is invested by the Future Fund Board of Guardians. The Future Fund Board of Guardians invests amounts standing to the credit of the special account, although the special account itself is non-interest bearing.

The following Special Accounts have not been used during the current and comparative years:

Lands Acquisition Special Account
Establishing Instrument: Lands Acquisition Act 1989, s.89A. Purpose: For the holding of amounts of compensation due to be paid to a person in respect of compulsory acquisition of interests in land where the amount of compensation payable to the person has been determined under the Lands Acquisition Act 1989 but after three months has lapsed the amount remains unpaid due to default or delay on the part of the claimant. To date there have not been any transactions through this account.

Services for Other Entities and Trust Moneys (SOETM) Special Account – Department of Finance
Establishing Instrument: Financial Management and Accountability (Establishment of SOETM Special Account – Finance) Determination 2012/08. Purpose: For the receipt of moneys temporarily held in trust for other persons other than the Commonwealth and for the payment to a person other than the Commonwealth, on behalf of the Government that are not PGPA Act agencies, or as permitted by an Act. The account is non-interest bearing. This special account was established on 26 June 2012 and the determination will sunset on 1 October 2022.

G. Managing Other Uncertainties

This section includes additional information about commitments and other events that may have an impact on future financials. These amounts have not been recorded elsewhere in the statements.

In the following disclosures, Departmental and Administered items are included together for presentation purposes only and these balances should not be compared.

G1 : Commitments

Commitments are defined as:

a) Intentions to create liabilities or assets for the receiving entity, as evidenced by undertakings or agreements to make/obtain future payments to/from other entities; and
b) Are executory contracts that are not recognised under *AASB 137 Provisions, Contingent Liabilities and Contingent Assets* (i.e. not onerous); but
c) Do not include future appropriations.

Commitments are disclosed per requirements of *AASB 117 Leases*, *AASB 138 Intangible Assets* and *AASB 116 Property, Plant and Equipment*.

	Departmental		Administered	
	30 June 2017 $'000	30 June 2016 $'000	**30 June 2017 $'000**	30 June 2016 $'000
BY TYPE				
Commitments receivable				
Domestic property portfolio - rent receivable[1]	**983,098**	954,950	**-**	-
Subleasing - rent receivable[2]	**11,170**	12,587	**-**	-
Net GST recoverable	**38,512**	46,869	**12,730**	12,325
Total commitments receivable	**1,032,780**	1,014,406	**12,730**	12,325
Commitments payable[3]				
Capital commitments				
Land and buildings[4]	**40,206**	107,539	**105**	500
Intangible assets development	**5,089**	10,350	**-**	-
Infrastructure, plant & equipment	**1,215**	2,661	**-**	144
Total capital commitments	**46,510**	120,550	**105**	644
Other commitments				
Operating leases[5]	**377,122**	386,288	**140,125**	135,168
Finance leases[6]	**7,075**	11,433	**-**	-
Net GST payable	**89,373**	86,814	**-**	-
Total other commitments	**473,570**	484,535	**140,125**	135,168
Total commitments payable	**520,080**	605,085	**140,230**	135,812
Net commitments by type	**512,700**	409,321	**(127,500)**	(123,487)
BY MATURITY				
Commitments receivable				
Within 1 year	**78,114**	81,338	**3,271**	3,385
Between 1 to 5 years	**397,162**	365,459	**7,725**	6,886
More than 5 years	**557,504**	567,609	**1,734**	2,054
Total commitments receivable	**1,032,780**	1,014,406	**12,730**	12,325
Commitments payable				
Capital commitments				
Within 1 year	**38,911**	105,387	**105**	644
Between 1 to 5 years	**7,599**	15,163	**-**	-
Total capital commitments	**46,510**	120,550	**105**	644
Operating lease commitments				
Within 1 year	**17,482**	21,134	**36,059**	36,820
Between 1 to 5 years	**90,864**	102,450	**84,988**	75,749
More than 5 years	**268,776**	262,704	**19,078**	22,599
Total operating lease commitments	**377,122**	386,288	**140,125**	135,168
Finance lease commitments				
Within 1 year	**3,190**	3,267	**-**	-
Between 1 to 5 years	**3,885**	8,166	**-**	-
Total finance lease commitments	**7,075**	11,433	**-**	-

	Departmental		Administered	
	30 June 2017 $'000	30 June 2016 $'000	**30 June 2017 $'000**	30 June 2016 $'000
Other commitments				
Within 1 year	**6,461**	6,191	**-**	-
Between 1 to 5 years	**34,440**	31,334	**-**	-
More than 5 years	**48,472**	49,289	**-**	-
Total other commitments	**89,373**	86,814	**-**	-
Total commitments payable	**520,080**	605,085	**140,230**	135,812
Net commitments by maturity	**512,700**	409,321	**(127,500)**	(123,487)

[1] Domestic property portfolio rent receivable includes rent to be received from the Australian Government's non-Defence Commonwealth owned property portfolio within Australia.
[2] Subleasing rent receivable arrangements exist with the Department of Human Services for One Canberra Avenue.
[3] Commitments relating to goods and services contracts for current and prior years are not required to be disclosed.
[4] Land and buildings mainly represent outstanding contractual commitments for construction projects.
[5] Operating leases mainly comprise office accommodation for Finance business operations (Departmental) and electorate offices for parliamentarians, Commonwealth Parliament Offices and COMCAR depots (Administered).
[6] Finance leases represent outstanding contractual commitments relating to IT equipment and software.

G2 : Contingencies

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

Finance does not have any significant quantifiable contingent assets or liabilities, nor does it have any unquantifiable contingent assets.

Unquantifiable contingent liabilities

In the normal course of business (including the Property and Insurance functions), Finance has a number of matters that are unquantifiable or subject to litigation. At the date of this report, Finance does not consider the outcome of any such matters likely to have a significant effect on its operations or financial position.

G3 : Subsequent events

There were no subsequent events after the reporting period.

H. Other Information

This section includes additional financial information which is considered relevant to assist users in understanding the financial statements.

H1 : Investments in joint ventures

	Departmental	
	2017	2016
	$'000	$'000
Thurgoona Industrial Estate (Finance owns 86.07%)	**1,791**	3,079
Baranduda Industrial Park (Finance owns 77.40%)	**1,820**	1,819
Total investments in joint ventures	**3,611**	4,898
Cash distributions (Equity returns) received from joint ventures: $1.2m (2015-16: $1.4m)		

Investments in joint ventures are not expected to be sold or fully realised within the next 12 months.

Finance's investment in joint ventures is accounted for using the 'Equity Method' which means the investment asset is carried at cost adjusted for post-acquisition changes in Finance's share of net assets of the joint ventures. Finance has equity in two joint arrangements, one with the City of Albury (Thurgoona Industrial Estate) and one with the City of Wodonga (Baranduda Industrial Park). These joint arrangements involve the development and sale of industrial lots in separate precincts situated within the local government boundaries of Albury and Wodonga.

Equity contributions involve land, estate development costs, rates, maintenance and selling costs. Development works have been completed and finished lots are currently being marketed.

The terms of each agreement provide that the "rights, duties, obligations, and liabilities of the parties shall be several and not joint nor joint and several". This means that the arrangements are not partnerships.

H2 : Other policy and disclosures

This section of the report provides additional information in relation to line items in the primary statements that do not have specific disclosures in the preceding notes. They are additional disclosures directed at the interests of particular users and their needs.

Centralised procurement

Finance develops and manages procurement arrangements for common goods and services to maximise market benefits for Commonwealth entities. The largest arrangements are VSA and IBNCS.

VSA

Finance manages a number of Volume Sourcing Arrangements and a number of custom support agreements with Microsoft to provide software licensing and custom support benefits to related Commonwealth entities. The arrangements are funded on a user pays basis and includes an administration fee.

IBNCS

Finance manages telecommunications services to related Commonwealth entities. This arrangement is funded on a user pays basis. These services include Network Carriage Services, Virtual Connection Management Services, Internet Protocol Carriage Services and Major Internet Connection Services.

Other activities

Finance manages other centralised procurement arrangements including WoAG travel, fleet monitoring, campaign advertising and major office machines. The Coordinated Procurement Contracting Special Account is detailed at Note F3.1.

VSA, IBNCS and Strategic Sourcing functions of the Centralised Procurement Contracting Special Account has transferred to DTA post 30 June as a result of Machinery of Government changes, further information is detailed in the Restructuring Note at C4.

Competitive neutrality (including income tax expense)

Finance is exempt from all forms of taxation except Fringe Benefits Tax and GST.

Finance applies the Australian Government's Competitive Neutrality Policy Statement (June 1996) to properties in the portfolio that are leased and managed in a competitive environment. The taxation equivalent regime is applied as a competitive neutrality charge (shown as competitive neutrality and income tax expense in the Statement of Comprehensive Income) and a notional payment is calculated quarterly to cover indirect taxes such as payroll tax, council rates, stamp duty and land tax and income tax based upon accounting income; as if they have been applied to these properties. These amounts have been paid or are payable by Finance to the OPA.

Rental income

Rental income includes rent received from tenants occupying buildings that are part of the Australian Government’s non-Defence property portfolio. It also includes revenue received from sub-leasing arrangements with other entities for non-Commonwealth owned properties.

Resources received free of charge

Resources free of charge are recognised as revenue when, and only when, a fair value can be reliably determined and the services would be purchased if they had not been donated. Use of the resources is recognised as an expense. Resources received free of charge are recorded as either revenue or gains depending on their nature. Resources received free of charge predominantly relate to Australian National Audit Office audit fees for Finance’s financial statements and WoAG financial statements (2017: $1.4 million). Resources received free of charge also includes a small portion for the recognition of land transferred from the NSW Government in the current year.

Resources received free of charge for Administered includes rent received free of charge for office space in the Ministerial Wing of Parliament House.

Resources provided free of charge

As outlined in the Restructuring Note at C4, IPEA was established effective 3 April 2017, with some functions from Finance transferring. Finance has continued to provide corporate services to IPEA free of charge. No separate disclosures are required.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, cash held with outsiders, cash in special accounts and demand deposits in bank accounts with an original maturity of three months or less that are readily convertible to known amounts of cash and subject to an insignificant risk of changes in value. Cash is recognised at its nominal amount. Cash or cash equivalent balances that are held for investment purposes are classified as investments.

Unearned revenue

Mainly relates to amounts received in advance for goods and services yet to be rendered by Finance to related Commonwealth entities for centralised procurement and domestic property and construction activities. Revenues are recognised in relation to these items when the relevant good or service has been provided.

Return of equity - special accounts

A provision is raised annually for the estimated balance of surplus funds to be returned to the OPA in the following year for the Property Special Account. In any year, the level of this provision reflects the estimated surplus funds arising from Finance’s property operations and gross divestment proceeds. The variance to budget for the cash return is due to the budget being based on the 2014-15 provision.

Official Public Account (OPA)

Collections of revenue to the Government are transferred to the OPA which is administered by Finance. Conversely, cash is drawn from the OPA to make payments under Parliamentary appropriation on behalf of the Government. These transfers to and from the OPA are adjustments to the administered cash held by Finance on behalf of the Government and reported as such in the Administered Cash Flow Statement and the Administered Reconciliation Schedule. OPA balances are disclosed in the Administered Schedule of Assets and Liabilities under cash and cash equivalents and the overnight cash balance payable. Given the fluctuation in daily balances, no budget is prepared for these items. The OPA balance is disclosed at Note D1.1.