

**Senate Finance and Public Administration Legislation Committee**

**ANSWERS TO QUESTIONS ON NOTICE**

**Finance and Administration Portfolio**

**Department of Finance and Administration**

**Budget Estimates Hearings 2004-05 – 26 May 2004**

**Question: F9**

**Outcome 1, Output 1.2.3**

**Topic: Payments to Telstra and Australia Post Superannuation Schemes**

**Hansard Page: F&PA 37**

**Senator Conroy asked:**

I wanted to talk about the treatment of superannuation expenses in light of the lump sum payments to Telstra and Australia Post earlier this year. When did negotiations for this payment commence?

**Answer:**

Discussions on this issue took place over the period from March 2003 to February 2004.

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Budget Estimates Hearings 2004-05 – 26 May 2004

**Question: What is the breakdown between interest and principal?**

**Question: F10**

**Outcome 1, Output 1.2.3**

**Topic: Payments to Telstra and Australia Post Superannuation Schemes**

**Hansard Page: F&PA 39 & 40**

**Senator Conroy asked:**

What is the breakdown between interest and principal?

**Answer:**

The total interest paid out in 2003-04 (including interest accrued, but not yet paid, in previous periods) was \$484 million. This compares to total payments in 2003-04 of \$3487 million (including the lump sum payment to the Telstra Superannuation Scheme (TSS) and 2003-04 quarterly payments to the TSS and the Australia Post Superannuation Scheme (APSS)).

A lump sum payment of \$1443 million to the APSS was made on 1 July 2004. This payment did not include an interest component on the basis that accumulated interest was fully paid out in 2003-04.

Further information on the payments to the TSS and the APSS is included in Attachment A and Attachment B.

## ACCOUNTING TREATMENT OF THE TELSTRA AND AUSTRALIA POST SUPERANNUATION PAYMENTS

Since 1990, the Government has been making payments to the Telstra Superannuation Scheme (TSS) and the Australia Post Superannuation Scheme (APSS). Payment schedules were in place to continue quarterly payments for up to 40 years.

### **Budget Treatment**

The fiscal balance and underlying cash balance impacts of making the lump sum payments, in place of the quarterly payments, are as follows.

	2003-04 \$ million	2004-05 \$ million	2005-06 \$ million	2006-07 \$ million	2007-08 \$ million
Fiscal balance	48	377	366	353	336
Underlying cash balance	-143	325	319	301	282

The figures in the above table and elsewhere in this paper exclude the financing costs associated with making the lump sum payments. This approach is consistent with the normal practice whereby the financing expenses included in the Budget are calculated for the Government as a whole rather than for individual Government decisions. Under this approach, the financing costs of specific transactions are not normally identified or reported.

### **Budget treatment of quarterly payments to the TSS and the APSS**

Quarterly payments made to the TSS and the APSS have been divided into components representing repayment of principal and payment of interest. The repayment of principal does not impact on the underlying cash balance, however, the interest component of payments impacts on the underlying cash balance.

This treatment is consistent with the ABS decision announced in its press release of 30 October 2002 (copy attached).

### **Budget Impact of lump sum payments**

The lump sum payments will be largely treated as financing transactions that do not impact on the underlying cash balance. The lump sum payments will:

- a) Improve the underlying cash balance in 2004-05 and later years because the Government will no longer be making quarterly superannuation payments with an interest component that has a negative impact on the underlying cash balance (the principal component had already been excluded from the underlying cash balance).
- b) Reduce the underlying cash balance surplus in 2003-04 because the lump sum payment to Telstra will allow all accrued interest to be paid out in that year.
- c) Improve the fiscal balance in 2003-04 and later years because accruing superannuation interest on these liabilities will be reduced in 2003-04 and eliminated in 2004-05 and later years.
- d) Remove the Government's liability to make future payments to the TSS and the APSS and reduce the Government's superannuation liabilities accordingly.

### **Split between interest and principal components**

The following table illustrates the split between the interest and principal components, both before and after the decision to pay out the liability in lump sum payments.

Following the decision to make the lump sum payments, the total interest paid out in 2003-04 (including interest accrued, but not yet paid, in previous periods) was \$484 million. This compares to total payments in 2003-04 of \$3487 million (including the lump sum payment to the TSS and 2003-04 quarterly payments to the TSS and the APSS).

The lump sum payment to the APSS was made on 1 July 2004. This payment did not include an interest component on the basis that accumulated interest was fully paid out in 2003-04.

**Table 2: Payment components**

	2003-04 \$ million	2004-05 \$ million	2005-06 \$ million	2006-07 \$ million	2007-08 \$ million
<b>Estimated payments if no lump sum payments</b>					
Estimated quarterly payments	491	524	533	545	555
Principal component	150	199	214	244	273
Interest component	341	325	319	301	282
<b>Lump sum payments</b>					
Quarterly payments	361	0	0	0	0
Lump sum payments	3125	1443	0	0	0
Total payments	3487	1443	0	0	0
Principal component	3003	1443	0	0	0
Interest component	484	0	0	0	0

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### CHANGES IN THIS ISSUE

This issue includes a changed treatment of certain superannuation related transactions related to the superannuation arrangements for employees of public corporations in the statistics of the general government sector. The need for a possible revised treatment was first noted in Government Finance Statistics, Australia, Concepts, Sources and Methods, 1994 (ABS cat. no. 5514.0, paragraph 3.199). This changed treatment affects the cash flow statement only.

The changed treatment relates to amounts paid by public corporations to the general government sector in respect of the employer contribution to the superannuation arrangements for their employees, and the general government sector's subsequent payments to the public corporations' ex-employees or to other superannuation schemes as part of rollover arrangements, via the household sector.

Previously the net amounts affecting the general government sector (i.e. the gross receipts received less the payments made) were classified as part of 'increase in provisions' and brought 'above-the-line' in calculating the surplus/deficit of the sector. Under the changed treatment, the gross receipts received are classified as 'other financing' and are therefore treated 'below-the-line'. Payments made to ex-employees and rollovers are split into two components, a 'repayment of principal' component which is classified as 'other financing' and treated as 'below the line' and a 'payment of accrued interest' component, which is classified as 'interest paid' in the cash flow statement and continues to be recorded 'above the line'. Statistics for both of the public corporations sectors (i.e. the non-financial and financial corporation sectors) are unaffected by the change.

It should be noted that the treatment of amounts relating to superannuation arrangements for employees of the general government sector has not changed.

### Background

Over the years, diverse arrangements have existed in the operation of public sector superannuation schemes. In some cases, a government has operated a single scheme with membership open to employees from each of the three sub-sectors within the scope of GFS (general government, public non-financial corporations and public financial corporations). The composite nature of such schemes has to be taken into account given the sector-based focus of GFS, and the appropriate statistical treatment relies on data not ordinarily available in the financial statements of the superannuation funds concerned.

Where the general government sector has operated superannuation schemes in the above manner, effectively on behalf of its corporations (i.e. government businesses) outside the general government sector, the corporations have been required to make payments (in the nature of accrued employer contributions) to the general government sector. In the general government sector, these contributions have usually been applied to the day-to-day operations of the governments, rather than being held as specifically earmarked assets to be used in meeting their liabilities to the employees. As employees of the public corporations retired (or were 'rolled over' into other schemes), the general government sector discharged this liability on an emerging basis (i.e. by using proceeds from borrowings, liquidating assets, or some mixture of these, depending on the circumstances at the time).

However, as a result of a review of these transactions it has been decided that for the purposes of compiling economic statistics and portraying the underlying economic processes accurately from each sector's perspective, the path of the actual money flow (from the public corporations to general government) should be replaced by a statistical re-routing involving the household sector (which includes all employees). This means that the amounts paid by the public corporations are recorded as part of 'compensation of employees' paid by these corporations and recorded as compensation of employees received by the household sector (though no cash as such is received at the time). The household sector is then shown as providing these amounts to the general government in exchange for an asset (a financial claim) against it for future superannuation payments.

The general government sector incurs the corresponding liability, which is a financing transaction and as such is recorded 'below-the-line'. There are interest costs implicit in the arrangement. These interest costs are regarded as being of an operating nature for the general government sector and are therefore recorded 'above-the-line' when the cash payments associated with them are made. When the general government sector extinguishes the underlying principle, through payments associated with retirements, rollovers, etc, this is also regarded as being financing in nature and therefore recorded 'below-the-line'.

The changed treatment in the cash flow statement means that the transactions are treated in the same way in the cash flow statement as in the operating statement, with the exception that the interest amounts are recorded in the cash flow statement when the cash is paid and in the operating statement when interest is accrued. Adopting these changes will mean the treatment in the national accounts will be further refined.

The operating statement is unaffected. Since GFS data has moved to the accruals system in 1998-99, the nominal interest on the superannuation liability has been recorded in the operating statement, and the other transactions relating to these superannuation arrangements are recorded as financing items.

### **Impact of the changed treatment**

The changed treatment impacts on the cash-based surplus/deficit measure used in this release. Although the changed treatment may affect a number of jurisdictions, they are significant only for the Commonwealth general government sector in the more recent part of the time series. The information needed to make the revisions in this issue was provided to the ABS by the Commonwealth Department of Finance and Administration. It is anticipated that the impact on state and territory data is minimal, however, the ABS will work with relevant state and territory governments to provide revised series where possible.

The table below provides the old and revised surplus/deficit series for the Commonwealth

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general government for the period commencing 1961-62.

### SUMMARY OF REVISION TO SURPLUS(+)/DEFICIT(-) SERIES DUE TO CHANGED TREATMENT

Financial year	Commonwealth General Government		Difference
	Old	Revised	
	\$m	\$m	\$m
1961-62	494	479	-15
1962-63	416	401	-15
1963-64	485	468	-17
1964-65	848	830	-18
1965-66	834	818	-16
1966-67	294	272	-22
1967-68	298	275	-23
1968-69	522	494	-28
1969-70	990	960	-30
1970-71	888	855	-33
1971-72	883	837	-46
1972-73	371	322	-49
1973-74	1,420	1,143	-277
1974-75	306	176	-130
1975-76	-1,336	-1,504	-168
1976-77	2,578	2,337	-241
1977-78	2,311	2,048	-263
1978-79	2,978	2,823	-155
1979-80	4,443	4,247	-196
1980-81	6,128	5,922	-206
1981-82	8,110	7,884	-226
1982-83	4,216	3,949	-267
1983-84	1,032	738	-294
1984-85	2,416	1,968	-448
1985-86	3,178	2,652	-526
1986-87	-4,476	-5,135	-659
1987-88	-59	-509	-450
1988-89	5,955	5,421	-534
1989-90	6,484	5,942	-542
1990-91	-600	-438	162
1991-92	-12,669	-12,631	38
1992-93	-18,378	-18,118	260
1993-94	-18,283	-18,185	98
1994-95	-14,340	-14,160	180
1995-96	-11,113	-11,109	4
1996-97	-6,094	-6,099	-5
1997-98	144	149	5
1998-99	3,798	3,945	147
1999-00	12,671	12,747	76
2000-01	5,625	5,744	119

An all Australia General Government revision table is available on request.

## INTRODUCTION

This electronic release presents government finance statistics (GFS) on an accrual accounting basis for all Australian governments as follows:

- Operating statements for 1998-99 to 2002-03;



- Cash flow statements for 1998-99 to 2002-03; and
- Balance sheets at 30 June 1999 to 2002.

A table containing statistics for the total All Australia general government expenses by purpose at the 2-digit GPC level is also included for 1998-99 to 2002-03, as are All Australia statistics for the Local Government and Multi-jurisdictional sectors.

The sectors available in this release include General Government, Public Non-financial Corporations, and Non-financial Public Sector.

The statistics presented for the years 1998-99 to 2000-01 represent audited actual data while the statistics presented for 2001-02 and 2002-03 are preliminary and forward estimates respectively.

This is one of a series of electronic releases that replaces the former printed publication **Government Financial Estimates** (cat. no. 5501.0). Data for the Northern Territory were unavailable at the time of preparation of this release, however, estimates have been included in the calculation of the All Australia totals. Actual data for the Northern Territory will be released at a later date.

The summary tables below show the 2001-02 and 2002-03 net lending/borrowing results respectively for all Australian general government sector, public non-financial corporations and non-financial public sectors.

#### ALL AUSTRALIA, OPERATING STATEMENT - 2001-02 (p)

	General Government	Public Non-financial Corporations	Non-financial Public Sector
	\$m	\$m	\$m
GFS Revenue	262,305	60,527	306,465
GFS Expenses	261,648	58,541	303,738
<b>GFS Net Operating Balance</b>	<b>657</b>	<b>1,986</b>	<b>2,728</b>
Net acquisition of non-financial assets	3,820	3,461	7,317
<b>GFS Net Lending(+)/Borrowing(-)</b>	<b>-3,163</b>	<b>-1,475</b>	<b>-4,590</b>

(p) preliminary

#### ALL AUSTRALIA, OPERATING STATEMENT - 2002-03 (e)

	General Government	Public Non-financial Corporations	Non-financial Public Sector
	\$m	\$m	\$m
GFS Revenue	272,203	60,316	317,038
GFS Expenses	268,871	58,077	311,027
<b>GFS Net Operating Balance</b>	<b>3,332</b>	<b>2,239</b>	<b>6,010</b>
Net acquisition of non-financial assets	2,910	4,676	7,586
<b>GFS Net Lending(+)/Borrowing(-)</b>	<b>422</b>	<b>-2,436</b>	<b>-1,576</b>

(e) forward estimate

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The summary tables below show the 2001-02 and 2002-03 surplus/deficit results respectively for all Australia relating to the general government sector, public non-financial corporations and non-financial public sector.

### ALL AUSTRALIA, CASH FLOW STATEMENT - 2001-02 (p)

	General Government	Public Non-financial Corporations	Non-financial Public Sector
	\$m	\$m	\$m
Net cash flows from operating activities	17,003	16,133	28,241
Net cash flows from investments in non-financial assets	-14,736	-10,794	-25,558
Net cash flows from investments in financial assets for policy purposes	637	7	-81
Net cash flows from investments in financial assets for liquidity purposes	2,589	176	2,756
Net cash flows from financing activities	-4,175	-5,907	-4,379
<b>Net increase(+)/decrease(-) in cash held</b>	<b>1,317</b>	<b>-385</b>	<b>979</b>
<b>Surplus(+)/Deficit(-)</b>	<b>2,344</b>	<b>-1,103</b>	<b>1,347</b>

(p) preliminary

### ALL AUSTRALIA, CASH FLOW STATEMENT - 2002-03 (e)

	General Government	Public Non-financial Corporations	Non-financial Public Sector
	\$m	\$m	\$m
Net cash flows from operating activities	18,019	17,461	31,487
Net cash flows from investments in non-financial assets	-13,999	-12,297	-26,294
Net cash flows from investments in financial assets for policy purposes	2,394	138	2,482
Net cash flows from investments in financial assets for liquidity purposes	5,596	525	6,096
Net cash flows from financing activities	-11,671	-5,368	-12,941
<b>Net increase(+)/decrease(-) in cash held</b>	<b>339</b>	<b>460</b>	<b>830</b>
<b>Surplus(+)/Deficit(-)</b>	<b>4,062</b>	<b>-649</b>	<b>3,819</b>

(e) forward estimate

The summary table below shows the balance sheet aggregates for all Australia relating to the general government sector, public non-financial corporations and non-financial public sector as at 30 June 2002.

### ALL AUSTRALIA, BALANCE SHEET - At 30 June 2002 (p)

General Government	Public Non-financial Corporations	Non-financial Public Sector
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	\$m	\$m	\$m
<b>Assets</b>			
Financial assets	287,099	22,725	142,959
Non-financial assets	404,623	170,362	574,826
<b>Total</b>	<b>691,722</b>	<b>193,087</b>	<b>717,785</b>
<b>Liabilities</b>			
Shares and other contributed capital	-	193,907	36,920
<b>GFS Net Worth</b>	<b>396,356</b>	<b>-82,631</b>	<b>313,726</b>

(p) preliminary

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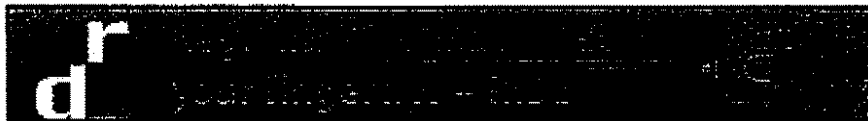
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Changed conceptual treatment of certain superannuation related transactions in government finance statistics

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**ANSWERS TO QUESTIONS ON NOTICE**

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**Department of Finance and Administration**

Budget Estimates Hearings 2004-05 – 26 May 2004

**Question: F11**

**Outcome 1, Output 1.2.3**

**Topic: Payments to Telstra and Australia Post Superannuation Schemes**

**Hansard Page: F&PA 41**

**Senator Conroy asked:**

Dr Watt indicated that a paper would be provided on the accounting treatment of the transactions.

**Answer:**

A paper on the accounting treatment has been provided as part of the answer to question F10.

**Senate Finance and Public Administration Legislation Committee**

**ANSWERS TO QUESTIONS ON NOTICE**

**Finance and Administration Portfolio**

**Department of Finance and Administration**

Budget Estimates Hearings 2004-05 – 26 May 2004

**Question: Financing costs associated with the transaction.**

**Question: F12**

**Outcome 1, Output 1.2.3**

**Topic: Payments to Telstra and Australia Post Superannuation Schemes**

**Hansard Page: F&PA 43**

**Senator Conroy asked:**

You mentioned that there were some financing costs associated with the lump sum. Could you give me that additional piece of information?

**Answer:**

The reduction in superannuation expenses associated with paying out these superannuation liabilities will be partly offset by the related financing expenses. However, the financing expenses included in the Budget are calculated for the Government as a whole rather than for individual Government decisions. Under this approach, the financing costs of specific transactions are not normally identified or reported.

Further information on the payments to the Telstra Superannuation Scheme (TSS) and the Australia Post Superannuation Scheme (APSS) has been provided as part of the answer to question F10.