

2007-08 BUDGET PAPER No. 1

**BUDGET STRATEGY  
AND OUTLOOK  
2007-08**

CIRCULATED BY  
THE HONOURABLE PETER COSTELLO MP  
TREASURER OF THE COMMONWEALTH OF AUSTRALIA AND  
SENATOR THE HONOURABLE NICK MINCHIN  
MINISTER FOR FINANCE AND ADMINISTRATION  
FOR THE INFORMATION OF HONOURABLE MEMBERS  
ON THE OCCASION OF THE BUDGET 2007-08  
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## Notes

- (a) The following definitions are used in this Budget Paper:
- ‘real’ means adjusted for the effect of inflation;
  - real growth in expenses is measured by the non-farm Gross Domestic Product (GDP) deflator;
  - the budget year refers to 2007-08, while the forward years refer to 2008-09, 2009-10 and 2010-11; and
  - one billion is equal to one thousand million.
- (b) Figures in tables and generally in the text have been rounded. Discrepancies in tables between totals and sums of components are due to rounding:
- estimates under \$100,000 are rounded to the nearest thousand;
  - estimates \$100,000 and over are generally rounded to the nearest tenth of a million;
  - estimates midway between rounding points are rounded up; and
  - the percentage changes in statistical tables are calculated using unrounded data.
- (c) For the budget balance, a negative sign indicates a deficit while no sign indicates a surplus.
- (d) The following notations are used:
- |         |   |
|---------|---|
| NEC/nec | not elsewhere classified                    |
| -       | nil   |
| na      | not applicable (unless otherwise specified) |
| (e)     | estimates (unless otherwise specified)      |
| (p)     | projections (unless otherwise specified)    |
| \$m     | \$ million                                  |
| \$b     | \$ billion                                  |

- (e) The Australian Capital Territory and the Northern Territory are referred to as 'the Territories'. References to the 'States' or 'each State' include the Territories. The following abbreviations are used for the names of the States, where appropriate:

NSW	New South Wales
VIC	Victoria
QLD	Queensland
WA	Western Australia
SA	South Australia
TAS	Tasmania
ACT	Australian Capital Territory
NT	Northern Territory

- (f) In this paper the term Commonwealth refers to the Commonwealth of Australia. The term is used when referring to the legal entity of the Commonwealth of Australia.

The term Australian Government is used when referring to the Government and the decisions and activities made by the Government on behalf of the Commonwealth of Australia.

*Budget Strategy and Outlook 2007-08* is one of a series of Budget Papers that provides information to supplement the Budget Speech. A full list of the series is printed on the inside cover of this paper.

# CONTENTS

<b>STATEMENT 1: FISCAL STRATEGY AND BUDGET PRIORITIES</b> .....	<b>1-1</b>
Fiscal outlook .....	1-3
Economic outlook .....	1-4
Fiscal strategy .....	1-5
Budget strategy and priorities .....	1-6
<b>STATEMENT 2: FISCAL OUTLOOK</b> .....	<b>2-1</b>
Budget aggregates .....	2-3
Variations to the fiscal balance estimates .....	2-3
Cash flows .....	2-8
Net debt and net worth .....	2-10
Medium-term fiscal outlook .....	2-12
<b>STATEMENT 3: ECONOMIC OUTLOOK</b> .....	<b>3-1</b>
Overview .....	3-3
The outlook for the international economy .....	3-8
The outlook for the domestic economy .....	3-13
<b>STATEMENT 4: AUSTRALIA'S LABOUR FORCE UTILISATION</b> .....	<b>4-1</b>
Labour force utilisation in international and historical context .....	4-4
Factors affecting labour utilisation decisions .....	4-17
Employment flexibility and security .....	4-26
Policy priorities for maintaining full employment in the face of global change .....	4-29
Conclusion .....	4-33
<b>STATEMENT 5: REVENUE</b> .....	<b>5-1</b>
Overview .....	5-3
Variations in the revenue estimates since the 2006-07 Budget .....	5-3
Estimates of revenue .....	5-7
<b>STATEMENT 6: EXPENSES AND NET CAPITAL INVESTMENT</b> .....	<b>6-1</b>
Overview .....	6-3
General government expenses .....	6-3
General government net capital investment .....	6-27

<b>STATEMENT 7: ASSET AND LIABILITY MANAGEMENT .....</b>	<b>7-1</b>
Net debt and net worth.....	7-3
Asset management .....	7-6
Liability management .....	7-9
<b>STATEMENT 8: FINANCIAL REPORTING STANDARDS AND BUDGET</b>	
<b>CONCEPTS .....</b>	<b>8-1</b>
Accrual GFS framework.....	8-3
Australian Accounting Standard reporting framework.....	8-8
Reconciliation of GFS and AAS aggregates .....	8-8
<b>STATEMENT 9: GOVERNMENT FINANCE STATISTICS STATEMENTS .....</b>	<b>9-1</b>
Government finance statistics statements .....	9-5
<b>STATEMENT 10: AUSTRALIAN ACCOUNTING STANDARDS FINANCIAL</b>	
<b>STATEMENTS.....</b>	<b>10-1</b>
Notes to the AAS Financial Statements.....	10-9
<b>STATEMENT 11: STATEMENT OF RISKS .....</b>	<b>11-1</b>
Risks to the budget — overview.....	11-3
Fiscal risks — revenue.....	11-6
Fiscal risks — expenses .....	11-7
Contingent liabilities — quantifiable .....	11-8
Contingent liabilities — unquantifiable .....	11-10
<b>STATEMENT 12: TRENDS IN PUBLIC SECTOR FINANCES.....</b>	<b>12-1</b>
Size and structure of the public sector .....	12-3
Fiscal balance .....	12-4
Cash surplus .....	12-9
Net debt.....	12-14
Net worth.....	12-17
Net interest payments .....	12-18
<b>STATEMENT 13: HISTORICAL AUSTRALIAN GOVERNMENT DATA .....</b>	<b>13-1</b>

# STATEMENT 1: FISCAL STRATEGY AND BUDGET PRIORITIES

The Australian economy is currently in the longest period of continuous expansion ever recorded. Economic growth has been supported by sound fiscal management and the Government's policy reforms.

Economic growth is expected to be sustained with the Australian economy forecast to grow at  $3\frac{3}{4}$  per cent in 2007-08.

An underlying cash surplus of \$10.6 billion is expected in 2007-08, with further surpluses projected for the following three years.

The *Intergenerational Report 2007* found that while long-term fiscal sustainability has improved since the first Intergenerational Report in 2002, demographic and other factors continue to pose substantial challenges for economic growth and long-term fiscal sustainability.

The 2007-08 Budget includes initiatives to further improve Australia's long-term economic growth and prosperity.

A high quality and responsive education system is vital to increasing skills which, in turn, boost workforce participation and productivity. The Government is introducing a comprehensive package of measures to improve Australia's education system. A key component is the establishment of a perpetual Higher Education Endowment Fund with an initial investment of \$5 billion from the 2006-07 surplus. In addition, there are \$3.5 billion of initiatives to promote the flexibility and diversity of the higher education sector, increase assistance for vocational education and training students, and enhance high-quality teaching and learning in Australian schools.

Building on the substantial tax reform delivered in previous budgets, the Government will further reduce personal income tax by significantly increasing tax thresholds and improving the low income tax offset. The tax cuts will increase disposable incomes for all Australian taxpayers and provide further incentives for individuals, including part-time workers, to participate in the workforce.

The Government is increasing the rates of Child Care Benefit by 10 per cent and ensuring more timely assistance by providing the Child Care Tax Rebate as a direct payment shortly after the end of the financial year. This will assist more than 700,000 families by providing access to more affordable child care.

The Government will also provide significant additional funding for road, rail and water infrastructure including funding for the second AusLink land transport plan (AusLink 2). High quality land transport infrastructure underpins Australia's productivity, economic growth and future prosperity.

# CONTENTS

<b>Fiscal outlook</b> .....	<b>1-3</b>
<b>Economic outlook</b> .....	<b>1-4</b>
<b>Fiscal strategy</b> .....	<b>1-5</b>
A medium-term approach to fiscal policy .....	1-5
<b>Budget strategy and priorities</b> .....	<b>1-6</b>
Personal income tax reform .....	1-8
Realising Our Potential .....	1-11
Improving child care assistance .....	1-14
Rewarding older Australians and carers .....	1-15
Increasing retirement savings for low income earners.....	1-16
Road and rail infrastructure — AusLink 2 .....	1-16
Creating opportunities for industry .....	1-17
Continuing business tax reform and reducing compliance costs.....	1-18
Strengthening our screen media industry .....	1-19
High quality health services for all Australians.....	1-19
Looking after older Australians.....	1-21
Sustaining our environment .....	1-21
Supporting our farmers and rural communities.....	1-24
Investing in Australia’s security .....	1-25
A Better Future for Indigenous Australians .....	1-27
Immigration.....	1-28



# STATEMENT 1: FISCAL STRATEGY AND BUDGET PRIORITIES

## FISCAL OUTLOOK

The fiscal outlook for Australia remains strong, with the Government forecasting a tenth budget surplus in 2007-08.

An underlying cash surplus of \$10.6 billion is expected in 2007-08 compared with an estimate of \$9.7 billion at the *Mid-Year Economic and Fiscal Outlook 2006-07* (MYEFO). Underlying cash surpluses continue to be projected across the forward estimates which add to national saving and foster sustainable economic growth.

**Table 1: Budget aggregates**

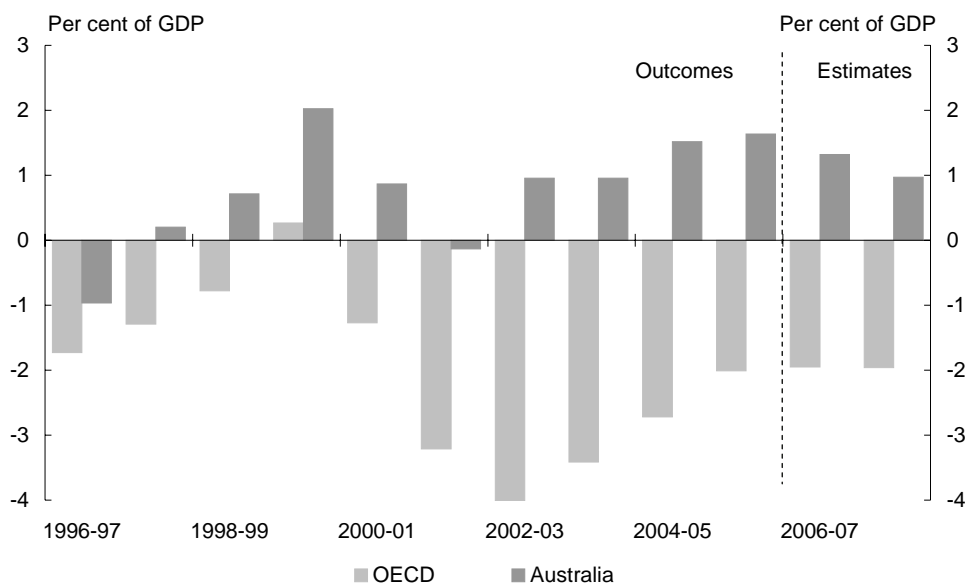
	Actual	Estimates		Projections		
	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
<b>Underlying cash balance (\$b)(a)</b>	<b>15.8</b>	<b>13.6</b>	<b>10.6</b>	<b>12.7</b>	<b>13.8</b>	<b>12.4</b>
Per cent of GDP	1.6	1.3	1.0	1.1	1.2	1.0
<b>Fiscal balance (\$b)</b>	<b>14.8</b>	<b>11.9</b>	<b>10.0</b>	<b>11.9</b>	<b>14.1</b>	<b>13.7</b>
Per cent of GDP	1.5	1.2	0.9	1.0	1.2	1.1

(a) Excludes expected Future Fund earnings.

In accrual terms, a fiscal surplus of \$10.0 billion is now expected for 2007-08, compared to a surplus of \$9.9 billion estimated at MYEFO.

Australia's sound fiscal position compared to the OECD average is highlighted in Chart 1. The fiscal position amongst OECD countries, on average, is expected to remain in deficit in 2007-08, notwithstanding strong global growth.

**Chart 1: International comparison of budget balances**



Source: OECD data are for the total general government sector and sourced from OECD Economic Outlook 80, December 2006. Australian data are for the Australian Government general government sector and sourced from Statement 13.

## ECONOMIC OUTLOOK

The flexibility of the Australian economy continues to underpin its favourable prospects. The economy is expected to grow strongly in 2007-08, after being affected by severe drought in 2006-07. The strong world economy continues to support growth. Prospects for the household sector have improved, with consumption and dwelling investment growth expected to strengthen, reflecting the continued stimulus to household income and wealth from high commodity prices. Business investment is anticipated to remain at high levels, and export growth is forecast to accelerate. Employment growth is forecast to ease in 2007-08, following a period of strength, and inflation is forecast to moderate.

Real GDP is forecast to grow by  $3\frac{3}{4}$  per cent in 2007-08, up from  $2\frac{1}{2}$  per cent in 2006-07. The forecast for 2007-08 reflects a partial recovery from the drought, which is underpinned by an assumed return to average seasonal conditions. Recovery from the drought is expected to add  $\frac{1}{2}$  of a percentage point to GDP growth. Abstracting from the drought, the Australian economy is expected to grow at around trend over the forecast period.

Table 2 presents the major economic parameters used in preparing the budget. The parameters for 2006-07 and 2007-08 are forecasts while those for 2008-09, 2009-10 and 2010-11 are projections. The projections of economic growth are based on analysis of underlying trends in employment and productivity. The projections are not affected by

climate change, the uncertain effects of which are in the much longer run outside the projection period.

Similar to the approach adopted since the 2005-06 Budget, key commodity prices are assumed to return to their long-run average level over the first two projection years. This is broadly consistent with aggregate non-rural commodity prices retracing around 60 per cent of their recent gains by the end of the projection period. The projections of inflation are consistent with the medium-term inflation target band.

**Table 2: Major economic parameters<sup>(a)</sup>**

	Forecasts		Projections		
	2006-07	2007-08	2008-09	2009-10	2010-11
Real GDP	2 1/2	3 3/4	3	3	3
Employment	2 1/2	1 1/2	1 1/4	1 1/4	1 1/4
Wage Price Index	4 1/4	4 1/4	4	4	4
CPI	2 3/4	2 1/2	2 1/2	2 1/2	2 1/2

(a) Year-average percentage change.

Source: Australian Bureau of Statistics (ABS) cat. no. 5206.0, 6202.0, 6401.0, 6345.0 and Treasury.

## FISCAL STRATEGY

The Government's medium-term fiscal strategy is an integral part of the economic management framework designed to deliver sustainable economic growth, rising employment and higher living standards.

### A medium-term approach to fiscal policy

The primary objective of the medium-term fiscal strategy is to maintain budget balance, on average, over the course of the economic cycle. This helps deliver macroeconomic stability, encourages private investment in a low interest rate environment, entrenches low public debt and ensures that, over time, the current account continues to reflect private, profit-driven, saving and investment decisions.

The Government's medium-term fiscal strategy has a number of supplementary objectives, including: maintaining budget surpluses over the forward estimates period while growth prospects are sound; not increasing the overall tax burden from 1996-97 levels; and improving the Australian Government's net worth position over the medium to longer term. The supplementary objective of no increase in the overall tax burden means that the Government achieves budget balance over the cycle through a disciplined approach to spending and not by recourse to increased taxation.

Consistent with the Government's fiscal strategy, this budget delivers a surplus in 2007-08 and surpluses over the forward estimates period. This will help contain inflationary pressures in the economy and will add to national savings. The fiscal strategy is complemented by a monetary policy framework which will continue to

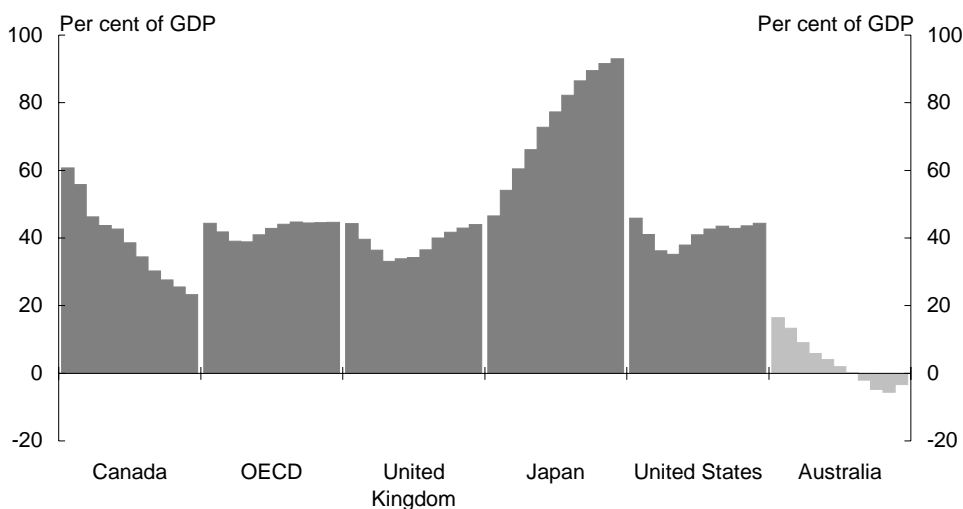
## Statement 1: Fiscal Strategy and Budget Priorities

foster sustainable economic growth with low inflation and low interest rates into the future.

Sound macroeconomic policy has seen the Australian economy continuously expand over 16 years – while also keeping inflation well contained. Since this Government came to office in 1996, Australia’s real GDP growth has averaged around 3½ per cent per annum, while inflation has averaged around 2½ per cent per annum.

This period of solid economic growth, coupled with prudent fiscal management, has enabled the Government to eliminate net debt, with Australia one of only a few countries among the OECD to have done so (Chart 2). In addition, the Government has established the Future Fund to meet outstanding Australian Government superannuation liabilities by 2020.

**Chart 2: General government net debt levels in selected countries (1998 to 2008)**



Source: International data are sourced from OECD Economic Outlook 80, December 2006. Australian data are sourced from Statement 12. All data are for the total general government sector.

The maintenance of budget surpluses while economic growth remains sound represents a prudent response to an uncertain future. In the current environment, this gives some insurance against adverse external risks, while also securing our finances to meet future challenges flowing from the ageing of the population.

## BUDGET STRATEGY AND PRIORITIES

The *Intergenerational Report 2007* found that while long-term fiscal sustainability has improved since the first Intergenerational Report in 2002, the ageing of the population and other factors continue to pose substantial challenges for economic growth and long-term fiscal sustainability.

The *Intergenerational Report 2007* projects that by 2047, a quarter of the population will be aged 65 and over – nearly double the current proportion. The ageing of the population is projected to result in a slow down in the rate of average economic growth per capita, with real GDP per capita projected to rise by 1.6 per cent per year on average over the next 40 years compared with 2.1 per cent over the past 40 years.

At the same time, spending pressures in areas such as health, age pensions, and aged care are projected to rise due to ageing and other factors. Australian Government real spending per capita is projected to increase by 2 per cent a year on average over the next 40 years. Overall, Australian Government spending is projected to rise by around 4¾ percentage points of GDP by 2046-47.

In the absence of policy changes, these pressures are projected to lead to a 'fiscal gap' (the amount by which spending is projected to exceed revenue) of around 3½ per cent of GDP by 2046-47.

The Government's strong fiscal outcomes over recent years have created a sound starting position from which to address the challenges from the ageing of the population. This places Australia well ahead of most other OECD countries, many of which are facing the challenges of an ageing population from a starting point of budget deficits and high levels of net debt. By eliminating net debt and establishing the Future Fund to meet Australian Government superannuation liabilities, the Government has ensured that the current generation is not passing on these financial burdens to future generations.

The 2007-08 Budget continues to build on a strong fiscal starting position and includes measures to further improve Australia's long-term economic growth and prosperity by enhancing productivity and participation in the workplace.

A high quality education system is crucial to enhancing the skills and productive capacity of Australia's young people and is an essential building block of economic growth prospects by increasing both productivity and labour force participation.

This budget includes a comprehensive package of measures to improve education outcomes across the university, vocational and school systems. A key component is the establishment of a new, perpetual Higher Education Endowment Fund with an initial investment of \$5 billion from the 2006-07 surplus. This significant investment will broadly double the existing financial assets and endowments held by the university sector. The earnings from this endowment will be distributed to universities on a competitive basis to finance infrastructure in the higher education sector which will be of a first class standard.

The Budget also includes initiatives of \$3.5 billion over four years to promote the flexibility and diversity of the higher education sector, increase assistance for vocational education and training students, and enhance high quality teaching and learning in Australian schools.

## Statement 1: Fiscal Strategy and Budget Priorities

The budget lifts the 30 per cent, 40 per cent and 45 per cent tax thresholds and increases the Low Income Tax Offset to cut personal income tax. These changes will boost work incentives by increasing the returns to work.

The Government is also providing significant additional investment in transport infrastructure through AusLink and, through the recently released industry policy statement, initiatives to encourage innovation and improve links between business and global markets. These initiatives will improve our physical infrastructure and the competitiveness of our industries.

Policies announced in this budget build on reforms already introduced to boost productivity and participation, such as the new workplace relations system, *WorkChoices*, which has added flexibility and choice to Australia's labour market, the Government's Welfare to Work reforms introduced in the 2005-06 Budget and extensive tax reform.

### Personal income tax reform

The Government will reduce personal income tax by \$31.5 billion over four years. The tax cuts will increase disposable incomes for all Australian taxpayers and provide further incentives for individuals, including part-time workers, to participate in the workforce. These changes build on the substantial tax reform delivered in previous years' budgets and will further enhance Australia's international competitiveness.

From 1 July 2007, the 30 per cent threshold will increase from \$25,001 to \$30,001. This builds on the increase in the threshold from \$21,601 to \$25,001 which was introduced on 1 July 2006.

In addition, from 1 July 2008 the 40 per cent threshold will increase from \$75,001 to \$80,001 and the 45 per cent threshold will increase from \$150,001 to \$180,001. This builds on the changes introduced on 1 July 2006 which:

- reduced the 42 per cent rate to 40 per cent and increased the 40 per cent threshold from \$63,001 to \$75,001; and
- reduced the top marginal rate from 47 per cent to 45 per cent and increased the top threshold from \$95,001 to \$150,001.

**Table 3: New personal tax rates**

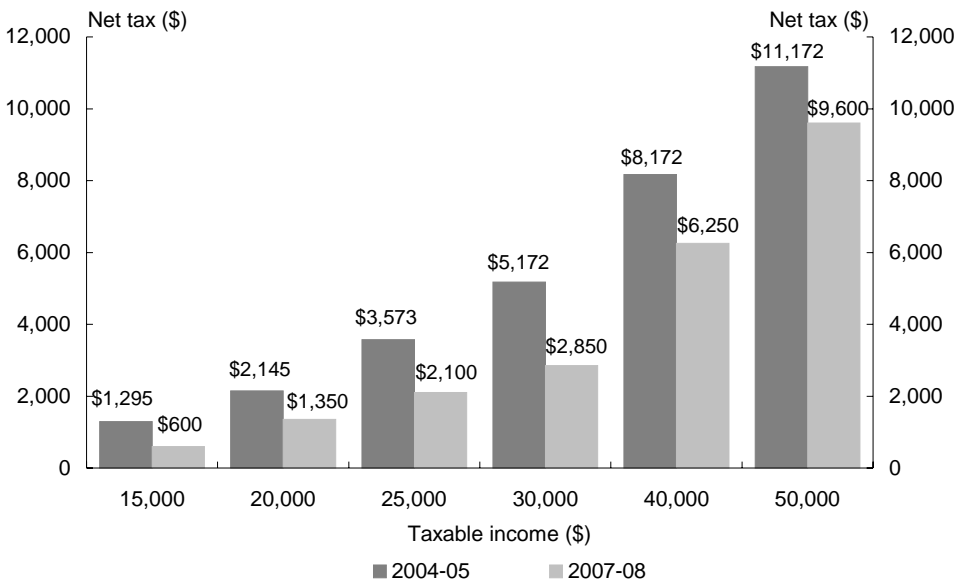
Current tax thresholds	Tax rate	New tax threshold	Tax rate	New tax thresholds	Tax rate
Income range (\$)	%	from 1 July 2007		from 1 July 2008	
		Income range (\$)	%	Income range (\$)	%
0 - 6,000	0	0 - 6,000	0	0 - 6,000	0
6,001 - 25,000	15	6,001 - <b>30,000</b>	15	6,001 - 30,000	15
25,001 - 75,000	30	<b>30,001</b> - 75,000	30	30,001 - <b>80,000</b>	30
75,001 - 150,000	40	75,001 - 150,000	40	<b>80,001</b> - <b>180,000</b>	40
150,001 +	45	150,001 +	45	<b>180,001 +</b>	45

Low income earners will be further assisted through an increase in the low income tax offset (LITO). From 1 July 2007, the LITO will increase from \$600 to \$750 and will begin to phase out from \$30,000, up from \$25,000. Those eligible for the full LITO will not pay tax until their annual income exceeds \$11,000 (up from \$10,000). Combined with the increase in the 30 per cent threshold to \$30,001, this will improve the rewards from working for low income earners.

Senior Australians will also benefit from these changes. Senior Australians eligible for the senior Australians tax offset (SATO) and the LITO currently do not pay tax until they reach an annual income of \$24,867 for singles and \$41,360 for couples (depending on the income received by each member of the couple). The tax cuts lift these income levels to \$25,867 for singles and \$43,360 for couples. The Medicare levy thresholds that apply to senior Australians will also be increased to ensure that they do not pay the Medicare levy until they begin to incur an income tax liability.

The 2007-08 Budget tax cuts continue tax relief for low income earners. Chart 3 shows the significant reductions in personal income tax for low and average income earners that have resulted from tax cuts provided in the last three budgets.

**Chart 3: Reductions in income tax for low income earners**



The 2007-08 Budget tax cuts ensure that more than 80 per cent of taxpayers face a marginal tax rate of 30 per cent or less. The increase in the top marginal tax rate threshold to \$180,001 in 2008-09 will mean that only around 2 per cent of taxpayers will be subject to a marginal tax rate of 45 per cent. Taxpayers will not reach the highest marginal tax rate until they earn more than three and a half times average weekly earnings.

*Statement 1: Fiscal Strategy and Budget Priorities*

The 2007-08 Budget tax cuts build on the reforms delivered in The New Tax System introduced in 2000-01 and the 2003-04, 2004-05, 2005-06 and 2006-07 Budgets. The overall effect has been to deliver significant reductions in tax for all Australian taxpayers.

- Taxpayers earning \$30,000 paid \$6,222 in income tax prior to The New Tax System (excluding the Medicare levy) whereas taxpayers on that income will, from 1 July 2007, pay \$2,850; a reduction of around 54 per cent.
- Taxpayers on \$60,000 paid \$18,802 in income tax prior to The New Tax System (excluding the Medicare levy) whereas taxpayers on that income will, from 1 July 2007, pay \$12,600; a reduction of around 33 per cent.
- Taxpayers on \$100,000 paid \$37,602 in income tax prior to The New Tax System (excluding the Medicare levy) whereas taxpayers on that income will, from 1 July 2008, pay \$26,600; a reduction of around 29 per cent.
- Taxpayers on \$180,000 paid \$75,202 in income tax prior to The New Tax System (excluding the Medicare levy) whereas taxpayers on that income will, from 1 July 2008, pay \$58,600; a reduction of around 22 per cent.

Chart 4 shows the percentage reductions in tax delivered by the Government, over a range of taxable incomes. In percentage terms the greatest tax cuts have been provided to low income earners.

**Chart 4: Income tax savings since The New Tax System**

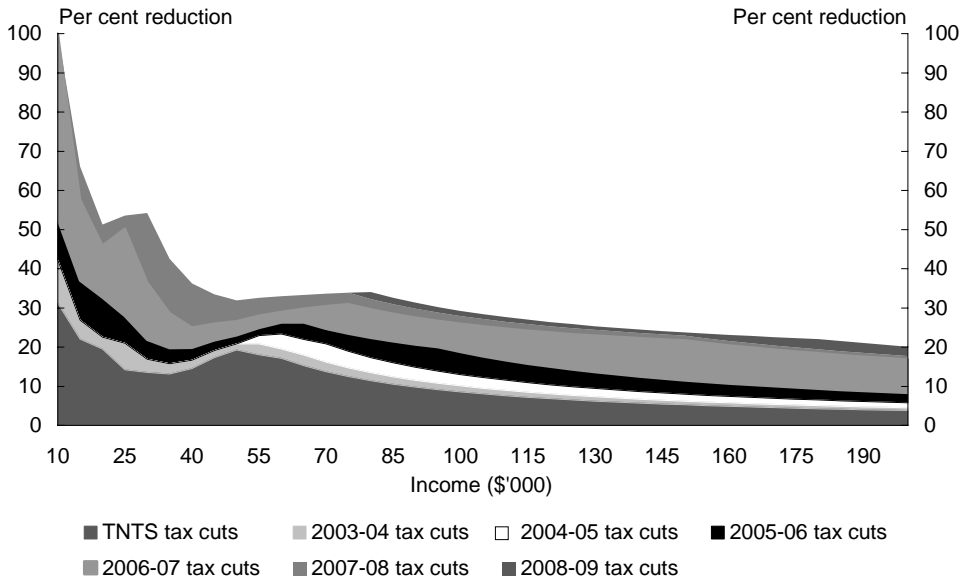
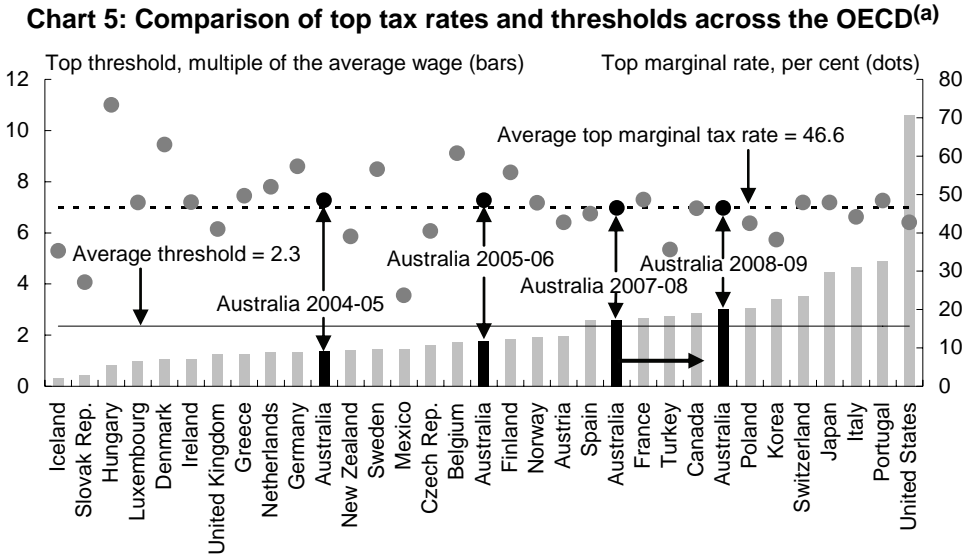




Chart 5 illustrates that the increase in the top marginal rate threshold will further improve Australia’s competitiveness against other OECD countries. The increase in the top threshold from 1 July 2008 will place Australia eighth highest in the OECD, up from 20<sup>th</sup> highest in 2004-05.



(a) The OECD average wage is for a worker engaged in full-time manual or non-manual labour across a range of industries.  
Source: OECD Tax Database (preliminary data).

**Pre filling tax returns**

The Government will provide \$20 million in 2007-08 to enable the Australian Taxation Office (ATO) to pre-fill electronic tax returns for around 9 million taxpayers who currently lodge their tax return electronically (either directly or through a tax agent), with effect from the 2007-08 income year. The ATO will pre-fill returns with information including salary and wages, interest, dividends, information on private health insurance and any benefits paid from the Government, including family tax benefit. This will make completing income tax returns significantly easier.

**Realising Our Potential**

With the right policy settings, the Australian education system will deliver the workforce that Australia needs for future prosperity. It will be an education system that is responsive to the needs of students and employers. A high quality and responsive education system is vital to increasing skills which, in turn, boost workforce participation and productivity – the key components of an economy’s productive capacity. It will also improve the capacity of individuals to participate in society. This budget includes a comprehensive package of assistance to Australia’s education system through the *Realising Our Potential* package that covers the university, vocational and school systems.

## *Statement 1: Fiscal Strategy and Budget Priorities*

### A more flexible and diverse university sector

*Realising Our Potential* will provide \$1.7 billion over four years to promote a flexible and diverse higher education sector that is more responsive to changes in student demand and economy-wide and international developments. The package also includes measures aimed at enhancing the accessibility of higher education.

To underpin these changes, the Government will establish a new, perpetual Higher Education Endowment Fund (HEEF) with an initial investment of \$5 billion funded from the 2006-07 surplus. This significant investment will broadly double the existing financial investments and endowments held by the university sector. The HEEF will be invested to earn income which will be distributed on an annual basis to individual universities for capital works and research facilities.

The HEEF will be structured so that it can receive philanthropic donations from the private sector and, if asked, manage individual universities' endowments. The Fund will encourage philanthropic support for universities from individuals and the corporate sector.

It is intended that further capital contributions will be made to the HEEF from future budget surpluses to grow, over time, a fund which will finance infrastructure in the Australian higher education sector which will be of a first class standard.

The HEEF will be managed by the Future Fund Board of Guardians as a separate entity to the Future Fund and the distributions of fund earnings each year will be made by the Minister for Education, Science and Training on advice from an expert advisory board.

Other major initiatives include:

- \$768 million over four years to increase the capacity of universities to respond more flexibly to student demand by allowing funding to more closely match student enrolments and by reducing the number of Commonwealth Grant Scheme funding clusters from 12 to 7;
- \$209 million over four years, including new funding of \$67 million, for a Diversity and Structural Adjustment Fund for universities to promote greater specialisation, diversity and responsiveness to local labour market needs, with priority given to regional and smaller metropolitan universities;
- \$91 million over four years to increase the number of Commonwealth Learning Scholarships for university study from 8,500 to 12,000;
- \$87 million over four years to extend eligibility for rent assistance to Austudy recipients; and

- \$43 million over four years to extend eligibility for the Youth Allowance and Austudy to students undertaking Masters by Coursework courses that are a minimal entry requirement to a profession or are part of a restructure of existing course requirements.

#### More assistance to students in vocational education and training

The Australian Government is a strong supporter of vocational education and training (VET). The recent *Skills for the Future* package committed \$837 million in new funding to support skills creation in the VET sector. *Realising Our Potential* builds on this commitment by providing:

- \$549 million over four years to first and second year apprentices in skill-shortage trades for an additional tax exempt payment of \$1,000 as a wage top-up for those under 30 years of age and, regardless of age, a \$500 fee voucher to help offset fees;
- \$84 million over five years to establish three new Australian Technical Colleges in the Brisbane, Sydney and Perth areas; and
- \$59 million over four years to assist VET providers to develop and implement fast track apprenticeships.

The Government will also extend FEE-HELP to full fee paying students in Diploma and Advanced Diploma courses, where significant credit towards a university degree is guaranteed.

#### Improving school outcomes

The Government is making an additional \$843 million commitment over four years to improving the quality of Australia's school system. Every parent is entitled to expect that their child will receive a high quality education and develop the core skills necessary to be able to realise their potential, no matter which school they attend. The Government's aim through the *Realising Our Potential* package is to ensure a high quality school system for Australia where parents can choose between publicly or privately provided education. Key initiatives include:

- \$632 million over four years in direct assistance for parents and students, including \$700 tutorial vouchers for parents whose children do not achieve national literacy and numeracy benchmarks; rewards for schools of up to \$50,000 for improving literacy and numeracy outcomes in their schools; and, additional funding for non-government schools in regional and remote areas;
- \$184 million over four years to improve teaching quality, including additional funding for universities to provide more practical experience to students undertaking teacher education, the adoption of national teacher training and registration standards, and to establish Australian Government Summer Schools for Teachers; and

## *Statement 1: Fiscal Strategy and Budget Priorities*

- \$27 million over four years to deliver national standards for curriculum in key areas in Years 10 to 12 and trial a national student aptitude test for Year 12 students that universities can use in considering tertiary applications.

The Government will also guarantee teaching quality through the 2009-12 schools funding agreement by requiring the States and Territories, as a condition of funding, to provide principals with greater autonomy over staffing decisions and teacher employment arrangements, and to introduce appropriate pay and career structures for teachers.

### **Improving child care assistance**

The Government recognises that access to affordable child care is vital for many families to enable them to participate effectively in the workforce. The Government introduced the Child Care Benefit (CCB) in 2000 and the Child Care Tax Rebate (CCTR), which covers 30 per cent of out-of-pocket costs, in 2004. In the 2006-07 Budget the Government also expanded the number of child care places available across the country, with the overall number of child care places expected to reach 700,000 by 2009.

This budget builds on the Government's long-standing commitment to help families meet their child care needs. In 2007-08, the Government will spend more than two and a half times the amount spent on child care assistance in 1996-97.

The Government will make child care more affordable for over 700,000 families by increasing CCB assistance. From 1 July 2007, the rates of CCB will be increased by 10 per cent on top of annual indexation. This will increase the maximum rate of assistance from \$2.96 per hour to \$3.37. For a family on the maximum rate with one child using 40 hours of care per week in a Long Day Care centre, CCB assistance will increase from \$118.40 to \$134.80 per week, an increase of \$16.40.

The Government will also improve the timeliness of child care assistance. From 1 July 2007, families will be able to receive their CCTR – up to a maximum of \$4,200 per child – as a direct payment through Centrelink shortly after the financial year in which they incur child care costs. This represents a bring-forward in the timing of the CCTR on current arrangements.

Families who incur out-of-pocket child care costs in both 2005-06 and 2006-07 will receive two rebates in 2007-08. They will receive one rebate for 2005-06 expenses as part of their tax assessment under existing arrangements, and the other, for 2006-07 expenses, as a direct payment. As part of the new arrangements, lower income families who previously had insufficient income to receive their full rebate entitlement will now be able to benefit fully from the CCTR.

The increase in CCB and more timely provision of CCTR will cost \$1.9 billion over five years.

The Government will also provide \$131 million in additional assistance to increase child care access for families and communities with special needs. Initiatives include:

- \$62 million over four years for the Inclusion Support Subsidy programme, which gives support to child care services that provide care to children with ongoing high support needs, in particular children with disabilities;
- \$44 million over four years to child care services located in regional and remote communities; and
- \$15 million over four years for the Jobs, Education and Training (JET) Child Care Fee Assistance programme, which provides extra child care fee assistance to parents returning to work, or undertaking study or job search activities.

### **Rewarding older Australians and carers**

The Government recognises the important contribution that older Australians and carers make to our society, and is committed to providing them with ongoing support.

To ensure that older Australians continue to share in the economic growth which they helped create, this year the Government will provide a seniors bonus payment of \$500 to individuals of age pension or service pension age receiving the Utilities Allowance or the Seniors Concession Allowance as at 8 May 2007. Individuals under age pension or service pension age receiving the Mature Age Allowance, Widows Allowance and Partner Allowance as at 8 May 2007 will also receive the payment. This measure will cost \$1.3 billion.

The Government recognises the sacrifices made by carers who look after people with a disability, and will provide them with additional assistance, at a cost of \$394 million. Recipients of the Carer Payment will receive a \$1,000 bonus payment while those who receive the Carer Allowance will be given a \$600 bonus payment. This is the fourth year in a row that these bonuses have been paid. Additionally, the \$1,000 bonus will be paid to those who receive both the Carer Allowance and either the Wife Pension or the Veterans' Affairs Partner Service Pension.

Both the seniors and carers bonuses will be paid by 30 June 2007, be tax free and not treated as income when calculating social security payments.

The Government will also provide \$160 million over four years to increase funding for veterans on the Special Rate and Intermediate Rate Disability Pensions. Commencing in July 2007, the per-fortnight payment for the Special Rate pension will increase by \$50 and the Intermediate Rate pension will increase by \$25. This measure will provide Australia's most disabled veterans with greater financial support.

The Government will also provide \$57 million to make a one-off tax free payment of \$25,000 to Australians who were Prisoners of War in Europe, or their surviving widows who were alive on 1 January 2007.

### **Increasing retirement savings for low income earners**

The Government will make a one-off additional co-contribution into the superannuation accounts of those persons who made eligible contributions in the 2005-06 income year. This will improve superannuation savings for low income earners at a cost to the Budget of approximately \$1.1 billion in 2006-07.

The measure will double the co-contribution paid in respect of the 2005-06 year. For example, if a person was eligible for a co-contribution of \$1,500 in respect of the 2005-06 year they will now receive an extra co-contribution of \$1,500, so that the total co-contribution in respect of that year would be \$3,000. If they were eligible for a \$500 co-contribution they will receive a total co-contribution of \$1,000 for the year. Superannuation is, of course, subject to preservation requirements. This will help to build the retirement savings of lower income earners.

### **Road and rail infrastructure — AusLink 2**

High quality land transport infrastructure underpins Australia's productivity, economic growth and future prosperity. To ensure its development into the future, the Government will provide \$22.3 billion over the five years from 2009-10 for the second AusLink land transport plan (AusLink 2), and funding for the continuation of untied local roads grants. In addition, an extra \$695 million will be provided under AusLink 1.

AusLink 2 increases the Government's substantial investment in Australia's road and rail infrastructure. Building on its \$15.8 billion commitment under AusLink 1 (including an additional \$695 million provided in this budget), the Government will provide \$19.1 billion under the AusLink 2 programme for the five years from 2009-10 including:

- \$16.8 billion to develop and maintain a defined National Network that links major population and economic centres and facilitates the movement of people and freight internationally, nationally and between regions;
- \$1.8 billion for the construction and maintenance of local roads under the Roads to Recovery Programme;
- \$300 million for measures to reduce the risk of accidents at dangerous sites under the Black Spot Programme; and
- \$300 million for projects that support the growth of regional industry or strengthen social and economic opportunities under the Strategic Regional Programme.

The Government will also continue its substantial financial assistance to local governments for the maintenance and preservation of local roads by providing \$3.2 billion over the five years from 2009-10 in untied local roads grants.

The Government's new investment on the National Network includes \$2.3 billion to construct the Goodna Bypass to address congestion along one of South-East Queensland's busiest freight and passenger corridors. To ensure that the project can commence as soon as possible and be operational by 2012, \$100 million will be provided in 2007-08 and \$300 million in 2008-09 under AusLink 1 with the remainder to be provided under AusLink 2.

This budget also makes a one-off payment of \$250 million in 2006-07 for supplementary funding for the AusLink 1 Strategic Regional Programme.

Further road and rail projects on the National Network will be developed following the completion of the 24 AusLink corridor strategies in mid-2007.

### **Creating opportunities for industry**

The Government's sound economic management and wide-ranging reforms have been critical in delivering an environment where industry is able to take the necessary decisions to maintain Australia's future prosperity.

This budget builds on this with a ten year, \$1.4 billion commitment to assist Australian firms to improve their productivity and capture the increasing opportunities offered by global markets. This commitment is outlined in the industry statement, *Global Integration: Changing Markets, New Opportunities*, which includes the following initiatives:

- \$200 million over four years to expand access to the 175 per cent research and development (R&D) tax concession, to encourage multinational enterprises to increase the amount of R&D they perform in Australia;
- \$171 million over five years for the establishment of Australian Industry Productivity Centres, which will provide a range of diagnostic and advisory services to firms in the manufacturing and services sectors to enhance their productivity and business performance;
- \$122 million over five years for the establishment of the Global Opportunities programme to facilitate Australian firms' participation in global supply chains and major international projects;
- \$54 million over four years to continue support to the food processing industry under the Food Innovation Grants programme;

### *Statement 1: Fiscal Strategy and Budget Priorities*

- \$49 million over four years for the implementation of a streamlined ABN and business names registration system;
- \$36 million over four years for a CSIRO National Research Flagship for Niche Manufacturing; and
- \$32 million over four years to enhance the Commercial Ready programme.

### **Continuing business tax reform and reducing compliance costs**

The Government will continue to reduce business compliance costs and will cut taxes on business by \$975 million over four years.

These measures include cutting taxes by \$435 million by:

- confirming the existing tax treatment for the finance leasing industry;
- removing the \$100 million turnover cap in the same business test for losses;
- improving the operation of the petroleum resource rent tax; and
- improving and clarifying the operation of the consolidation regime.

The Government will also reduce taxes on small business by a further \$540 million over the next four years through a number of initiatives aimed at reducing small business compliance costs. These initiatives build upon the measures in the 2006-07 Budget which reduced tax compliance costs and increased tax concessions for small business, and include:

- increasing the GST registration threshold from \$50,000 to \$75,000;
- aligning the criteria for annual pay as you go (PAYG) tax instalments with the criteria for making annual GST instalments;
- increasing access to simplified accounting methods for calculating the GST for businesses that make taxable and GST free mixed supplies or make mixed purchases; and
- increasing the threshold above which businesses are required to obtain a GST invoice from \$50 (GST exclusive) to \$75 (GST exclusive) in order to claim an input tax credit for a supply.

To complement these initiatives the Government will also provide \$40 million over four years to allow the Australian Taxation Office to provide more face-to-face assistance to start-up companies and assist them to keep good records and understand their tax requirements.



## **Strengthening our screen media industry**

The Government will strengthen and reform Australia's screen media industry, with a package of reforms costing \$283 million over four years.

From 1 July 2007, support for international and domestic productions will be provided through a producer tax rebate.

The Government will introduce a 40 per cent refundable tax rebate on domestic feature films and a 20 per cent refundable tax rebate on other eligible domestic media productions including television series and documentaries at a cost of \$215 million over four years. The provision of the rebate provides support to domestic productions which have been able to demonstrate market appeal through securing a commitment of private sector financing for the project.

The producer tax rebate will have an international component which incorporates the current refundable film tax offset (RFTO). The rebate for eligible international film production costs will be 15 per cent, an increase from the 12.5 per cent currently provided through the RFTO. Eligibility for international producers will be extended beyond the criteria for the RFTO to include post, digital and visual effects production in Australia where the film is not made in Australia and qualifying expenditure exceeds \$5 million. These changes will further increase the competitiveness of Australia as a destination for the production of international films and associated post production work.

From 1 July 2008, the Government will also establish a new film agency, the Australian Screen Authority, by merging the Australian Film Commission, the Film Finance Corporation Australia and Film Australia Limited.

The new agency will be responsible for administering Government support to the screen media industry, to achieve a more strategic approach to film funding, remove overlaps in functions and provide administrative efficiencies.

As part of these reforms, the current investor tax incentives – Division 10BA and 10B of the *Income Tax Assessment Act 1936* will be phased out and the Film Licensed Investment Company scheme will not be renewed beyond its current expiry date of 30 June 2007.

## **High quality health services for all Australians**

In 2007-08 the Government will spend \$51.8 billion on health and aged care, up from \$20.2 billion in the Government's first budget in 1996. This budget strengthens the role of prevention and health management in primary care to address the high prevalence of chronic and preventable illnesses in Australia. The *Intergenerational Report 2007* identifies population ageing and advances in medicines as two key spending pressures in health. Demand for new technologies and medicines to improve health and quality of life will inevitably increase. Strategies to ensure this remains affordable to

## *Statement 1: Fiscal Strategy and Budget Priorities*

Government include maintaining a healthy population and reforming the Pharmaceutical Benefits Scheme (PBS) to keep prices of medicines affordable.

### **Preventing and treating chronic and complex conditions**

The budget provides \$772 million over four years to improve the detection and treatment of Australians with chronic and complex conditions, the incidence of which will increase as the population ages. Funding includes:

- \$378 million to increase access to private dental services for people with chronic and complex care needs where their dental health is affecting their general health. Patients who are being managed by their GP under a GP treatment plan will receive up to \$2,125 per year in Medicare rebates for dental treatment;
- \$291 million to introduce two new Medicare items for the treatment of Australians with chronic and complex conditions by consultant physicians, in recognition of the longer, more complex consultations involved; and
- \$103 million for risk assessment and any necessary clinical treatment by GPs, as well as referral by GPs to lifestyle modification services, for people diagnosed as being at high risk of developing type 2 diabetes. This forms the Government's contribution to the joint \$200 million package agreed through the Council of Australian Governments in April 2007 for the prevention and treatment of diabetes.

### **A healthy active Australia**

Being overweight or obese are major risk factors for chronic diseases including diabetes, heart disease and stroke. This budget provides an additional \$150 million over four years for a package of measures to improve nutrition and encourage physical activity in the community, including \$127 million for the Active After-school Communities Programme and a Wellbeing Plan for Children to be developed by the CSIRO.

### **Expanding Australia's capacity to undertake health and medical research**

Building Australia's physical capacity to undertake health and medical research is vital to meeting current and future health challenges. To enhance Australia's research effort, the Government will provide grants totalling \$486 million in 2006-07 to support the construction of world-class health and medical research infrastructure. These facilities will strengthen the capacity of Australian researchers to make breakthroughs in a range of important health areas.

### **A stronger, more sustainable Pharmaceutical Benefits Scheme**

In November 2006 the Government announced reforms to the PBS to achieve better value from off-patent medicines, without increasing the cost to patients. This is expected to save \$3 billion over the next 10 years and will strengthen the Government's capacity to provide Australians with access to innovative medicines into the future. For example, the reforms will help fund access to Fosamax® Once Weekly,

Alendro® Once Weekly and Fosamax® Plus (alendronate) for patients aged 70 years and over with osteoporosis who are at high risk of fracture, and are included in this budget at a cost of \$228 million over five years from 2006-07.

### Combating illicit drugs, including methamphetamines

This budget provides \$150 million over five years from 2006-07 for a package of health, education and law enforcement measures to combat the abuse of illicit drugs and target the rise in the use of methamphetamines, such as ice. The package includes \$80 million over four years to expand the Non-Government Organisation Treatment Grants Programme, to significantly increase the number of treatment places and to increase the capacity of non-government organisations' treatment services to provide assistance to young people and families.

### Looking after older Australians

The Government continues its strong commitment to caring for aged Australians. The *Intergenerational Report 2007* estimates that the proportion of the Australian population aged 80 and over will almost treble over the next 40 years.

This budget provides funding of \$1.6 billion over five years from 2006-07 for the *Securing the future of aged care for Australians* package, which will further reform the aged care system to increase the availability and fairness of aged care. This package will allow more elderly Australians to continue residing in their own homes, make fees and charges simpler and fairer, and improve quality and choice.

The package includes \$411 million over five years from 2006-07 for an additional 7,200 community care packages that will enable older Australians to reside in their own homes rather than in residential aged care facilities.

### Sustaining our environment

The Government recognises that sustaining Australia's environment is critical to our living standards and the nation's wellbeing.

The 2007-08 Budget includes a range of measures to address key environmental issues facing the nation, including water scarcity, climate change, and sustainable land management.

#### A National Plan for Water Security

Water security is a critical issue for Australia, the driest inhabited continent in the world.

This budget includes funding of \$10 billion over 10 years to implement the *National Plan for Water Security*, announced by the Government on 25 January 2007, to increase the efficiency of rural water use, maximise future water security, and achieve an

## *Statement 1: Fiscal Strategy and Budget Priorities*

appropriate balance between the needs of industry, communities and the environment. Key elements of the Plan, which is conditional on governance arrangements in the Murray-Darling Basin being placed on a national footing, include:

- \$5.9 billion to modernise both on-farm and off-farm irrigation infrastructure to increase the efficiency of water use. Key actions include capital works on major delivery channels, improved usage metering, and incentives for irrigators to adopt more efficient watering methods such as drip irrigation systems;
- \$3.1 billion to address over-allocation of water in the Murray-Darling Basin, including through the purchase of water entitlements, and assisting irrigators in non-viable areas to exit the industry;
- \$585 million to facilitate the transfer of governance arrangements for the Murray-Darling Basin to the Australian Government, to ensure that water is managed responsibly in the future, including through the introduction and enforcement of a sustainable cap on surface and ground water use; and
- \$417 million to expand the role of the Bureau of Meteorology to develop improved forecasting and water data and better inform future decisions regarding land and water use.

The Plan also includes funding of \$85 million over seven years to continue capping groundwater bores as part of the Great Artesian Basin Sustainability Initiative.

The Government will also extend the Community Water Grants programme with funding of \$201 million over the next six years. The programme offers grants to help local community organisations and schools save, recycle or improve the health of their local water resources.

### Meeting the challenge of climate change

Climate change has potentially significant implications for the environment, for our living standards, and for our economy. The wellbeing of future generations requires a practical and responsible policy response. The Government has implemented a wide range of policies in response to the challenge of climate change. Building on this commitment, the 2007-08 Budget includes further measures to address climate change costing \$741 million over five years to 2011-12.

Measures to reduce Australian greenhouse gas emissions include:

- \$150 million over five years to extend and expand the Government's successful Photovoltaic Rebate Programme, including a doubling of the rebates available to households;
- \$53 million over five years to provide information to households and small businesses on how to become more energy efficient;

- \$24 million over four years to allow the cost of establishing carbon-sink forests to be tax deductible under the provisions for horticultural plantings, with immediate tax deductibility for the first five income years to encourage the establishment of the industry;
- \$19 million over five years for a competitive grants programme to reduce coal mine emissions through methane capture and flaring;
- \$18 million over four years to implement a national regulatory and legislative framework for carbon capture and storage technology; and
- \$8 million over five years for the phase-out of incandescent light bulbs.

The Government recognises that climate change is a global challenge requiring global solutions. Accordingly, this budget also provides \$197 million over five years towards the Global Initiative on Forests and Climate, an initiative established by the Australian Government to improve the management of forests in developing countries. This will be complemented by an additional \$33 million to support water management, energy efficiency and alternative energy initiatives in developing countries.

This budget also includes \$126 million over five years to establish the Australian Centre for Climate Change Adaptation, which will undertake further research into the impacts of climate change in Australia and explore effective responses. In addition, the CSIRO will be provided with \$103 million over four years for a new National Research Flagship on Climate Adaptation, and to extend the existing Energy Flagship.

The Government has established a joint government business Task Group to advise on a workable global emissions trading system in which Australia would be able to participate. The Task Group will advise on steps that could be taken in Australia consistent with the goal of establishing such a system and will report back to the Government by 31 May 2007.

### **Sustainable management of our natural resources**

This budget will expand support for sustainable natural resource management, providing a long-term, integrated and comprehensive approach to the conservation and enhancement of Australia's natural resources.

The Government is investing an additional \$2 billion over five years from 2008-09 to support activities undertaken at the national, regional and community level through Phase Three of the Natural Heritage Trust. This will build on the achievements of the Government's \$3.8 billion investment to date under both the Natural Heritage Trust and the National Action Plan for Salinity and Water Quality, which has helped protect over 8 million hectares of wetlands, treated 400,000 hectares of land for salinity and erosion, and helped some 800,000 volunteers become involved in undertaking on-ground work.

## *Statement 1: Fiscal Strategy and Budget Priorities*

The Government is also continuing the National Landcare Programme. Funding of \$112 million over three years from 2008-09 will be invested in ongoing partnerships between the Government, farmers and community groups to undertake on-ground activities, improve the skills and knowledge of natural resource managers, and promote the uptake of best management practices.

This budget also includes \$50 million over four years to establish an innovative Environmental Stewardship Programme. Under this groundbreaking approach, the Government will work in partnership with landholders through voluntary contracts of up to 15 years duration to reward those who undertake positive actions, beyond their legal obligations and duty of care, to protect and enhance select high value environmental assets. Participating landholders will be chosen through a range of market-based mechanisms such as auctions.

### **Supporting our farmers and rural communities**

Recognising the important role that agriculture plays in Australia's economy, this budget includes \$874 million over five years from 2006-07 to increase the capacity of rural producers to manage change and enhance competitiveness, while also providing assistance to those facing difficult times, including as a result of the drought.

#### **Agriculture — Advancing Australia (AAA)**

AAA is the Government's primary policy initiative for assisting farmers and rural industries to manage change and better position themselves for the future. This budget includes \$205 million over four years to continue and refocus AAA, including:

- \$92 million for the FarmHelp programme to provide short-term financial support and professional advice for farmers in severe financial difficulty, including re-establishment grants of up to \$75,000 for those who decide to exit the industry;
- \$35 million to expand the Advancing Agricultural Industries programme (formerly the Industry Partnerships programme), providing industries with greater capacity to identify opportunities and adjust to change; and
- \$26 million to establish a new national delivery model for the Farmbis programme, which helps rural producers by meeting 65 per cent of business management training and education costs.

This funding builds on the substantial resources already provided through the AAA initiative since 1997, and will enable greater flexibility and better targeted provision of assistance.

## Drought assistance

The Government recognises the unprecedented severity and extent of the current drought and continues to provide a range of support programmes and services to assist farmers and rural small businesses to cope with its impact.

This budget will provide an additional \$314 million over three years in Exceptional Circumstances assistance including \$273 million for primary producers and \$42 million for small businesses who service primary producers. This brings total expected Exceptional Circumstances spending to \$688 million in 2007-08, which is in addition to the \$428 million spent in 2005-06 and an expected \$740 million in 2006-07.

Additional support will also be provided to irrigators and communities in the southern Murray-Darling Basin, who are facing the prospect of significantly reduced water allocations. The Government will provide \$13 million over two years to expand counselling and support services, establish a drought assistance hotline, and provide information to farmers in the region.

## Improved rural services

The Government is committed to ensuring that rural and regional Australians have access to essential services, with this budget providing:

- \$157 million over five years from 2006-07 to support the important services provided by the Royal Flying Doctor Service, including aero-medical evacuations and primary health clinics;
- \$163 million over two years in additional funding to augment the Broadband Connect programme, to provide subsidised broadband access to those Australians who are unable to gain reasonable access due to technical or geographical constraints; and
- \$22 million over four years to upgrade rural airstrips to provide for year-round access to essential services, including emergency health, mail delivery and passenger transport.

## **Investing in Australia's security**

A strongly performing economy can only be sustained within a safe and secure environment for our nation.

### Defence

The Government is committed to ensuring that the Australian Defence Force (ADF) is fully equipped to defend Australia and its interests. To ensure that Australia continues to be served by a high quality military, the 2007-08 Budget is committing an additional \$2.1 billion over 10 years to improve the ability of the ADF to recruit and retain

## *Statement 1: Fiscal Strategy and Budget Priorities*

members. This is in addition to \$1 billion over 11 years provided in December 2006. Initiatives in this budget include:

- \$864 million over 10 years for a new Defence home ownership assistance scheme. This will replace the existing scheme with a more attractive package of interest payment subsidies designed to encourage retention;
- \$585 million over 10 years to reform the 'other ranks' pay scales by introducing restructuring similar to that already implemented for officers; and
- \$228 million over 10 years to improve marketing and service branding to attract potential recruits.

The Government will spend \$6.6 billion over 13 years to acquire 24 F/A-18F Super Hornets to ensure Australia maintains air superiority in our region. The purchase will ensure a smooth transition to the F-35 Joint Strike Fighter and allow for the retirement of the existing F-111 fleet.

Other key measures in the 2007-08 Budget include:

- \$4 billion over 10 years to fund the continued operation and maintenance of 18 high-priority platforms including Collins class submarines, Black Hawk helicopters and Hercules transport aircraft;
- \$1.4 billion over 10 years to operate and maintain the four C-17 heavy airlift aircraft funded as part of the 2006-07 Budget; and
- \$1.1 billion over four years from 2006-07 to continue Australia's commitment to military operations in Iraq and Afghanistan.

### **National security**

The Government is committed to enhancing Australia's national security capabilities. In order to address enduring and emerging threats the 2007-08 Budget provides new funding of \$702 million over four years to reinforce and expand these capabilities. The *Strengthening National Security* package includes:

- \$209 million over four years to strengthen aviation security and provide purpose built facilities for police operating at major airports;
- \$135 million over four years to maintain protective security arrangements for infrastructure, personnel and assets at Defence bases and establishments;
- \$107 million over four years for Defence to address identified high-priority intelligence needs;



- \$79 million over four years to provide for improvements to state office accommodation for the Australian Security Intelligence Organisation; and
- \$74 million over four years to implement initiatives to improve e-security.

These measures bring to \$10.4 billion the additional funding the Government has committed to national security spending over the ten year period to 2010-11.

## **A Better Future for Indigenous Australians**

This budget includes \$748 million over five years from 2006-07 for new initiatives to improve housing, further invest in health and education, and contribute to the economic independence of Indigenous Australians. Initiatives include:

- \$294 million over four years for major reform in Indigenous housing to help address the housing backlog in remote areas, including construction of new homes and improved maintenance and repair of existing housing. Opportunities for home ownership and strengthened tenancy arrangements will be a feature of the new reforms. These represent a major contribution to the environmental health and wellbeing of Indigenous people;
- \$239 million over five years from 2006-07 to give young Indigenous people more opportunity to move from rural or remote communities to access employment or education. An additional 750 scholarships for the Indigenous Youth Leadership Programme and 860 additional places in the Indigenous Youth Mobility Programme will be provided. Abstudy entitlements will be enhanced to better target Indigenous Australians who wish to pursue educational opportunities, and up to 1000 disadvantaged Indigenous students per year will be assisted to attend university. Additionally, the Government will provide funding of \$114 million to build or upgrade boarding schools and student hostels;
- \$61 million over four years to create opportunities for Indigenous workers by converting Community Development Employment Projects (CDEP) positions in government service delivery into formal employment positions;
- \$46 million over four years in additional funding to enhance Indigenous early childhood opportunities, including an expansion of playgroup services benefiting up to 6,100 Indigenous children. This funding will also improve access to child care and early childhood services for Indigenous people. These measures recognise that early childhood is a critical intervention point to turn around the intergenerational consequences of Indigenous disadvantage;
- \$38 million over four years for regionally-focused multi-disciplinary teams of health professionals that are equipped to respond flexibly to Indigenous families' complex health needs; and

## *Statement 1: Fiscal Strategy and Budget Priorities*

- \$37 million over four years for a *Health @ Home Plus* early intervention package in priority regions involving dedicated home visits by qualified nurses and health workers for Indigenous children aged under nine years and their families.

### **Immigration**

The level of net overseas migration plays an important role in maintaining sustainable economic growth. It can also reduce the rate of population ageing because migrants are younger on average than the resident population. Skilled migration in particular can assist in addressing Australia's labour market needs.

In 2007-08 the Government is increasing the Migration Programme by 8,800 places to up to 152,800 places. Of these additional places, 5,000 will be for migrants in the skilled stream.

Humanitarian entrants generally have poorer labour market outcomes than the resident population. The Government is therefore investing \$209 million over four years in initiatives to improve the outcomes of humanitarian settlers in Australia. This package includes measures aimed at promoting early integration through English language programmes and employment support.

The Government will also provide \$124 million over five years from 2006-07 to develop and implement a formal Citizenship Test for prospective Australian citizens and other initiatives to enhance the integration of permanent residents and long-term temporary residents. The cost of this initiative will be partially offset by revenue of \$34 million over four years from an increase in the citizenship application fee.

## STATEMENT 2: FISCAL OUTLOOK

This statement summarises the main budget aggregates for the Australian Government general government sector.

The fiscal outlook for 2007-08 remains strong, with the Government forecasting an underlying cash surplus of \$10.6 billion. Across the forward estimates the Government has maintained the budget in a surplus position after providing for personal income tax relief worth \$5.3 billion in 2007-08 and \$31.5 billion over the forward estimates.

The Government's sound fiscal management has eliminated net debt which stood at \$96.3 billion in 1996-97. It is expected that net worth will be positive in 2008-09. The ageing of the population, together with rising age pension, health and aged care spending, will open a gap between revenue and expenses in the long run. By accumulating financial assets in the Future Fund and maintaining strong surpluses over the forward estimates, the Government is well placed to deal with these emerging fiscal pressures.

# CONTENTS

<b>Budget aggregates</b> .....	<b>2-3</b>
<b>Variations to the fiscal balance estimates</b> .....	<b>2-3</b>
Variations in revenue estimates .....	2-4
Variations in expense estimates .....	2-5
Variations in net capital investment estimates .....	2-8
<b>Cash flows</b> .....	<b>2-8</b>
Headline cash balance.....	2-10
<b>Net debt and net worth</b> .....	<b>2-10</b>
<b>Medium-term fiscal outlook</b> .....	<b>2-12</b>
Importance of fiscal sustainability .....	2-12
Fiscal outlook .....	2-12
<b>Appendices</b>	
Appendix A: Reporting Standards.....	2-15
Appendix B: Budget Financial Statements.....	2-17
Appendix C: Sensitivity of Fiscal Expenses and Revenue to Economic Developments .....	2-23

## STATEMENT 2: FISCAL OUTLOOK

The fiscal outlook for 2007-08 remains strong, with the Government forecasting its tenth budget surplus. Across the forward estimates period, the Government has maintained the budget in surplus after providing for personal income tax relief worth \$31.5 billion, a \$3.5 billion investment in Australia's education system and substantial new funding for road, rail and water infrastructure.

### BUDGET AGGREGATES

An underlying cash surplus of \$10.6 billion is expected in 2007-08 compared with an estimated surplus of \$9.7 billion at the *Mid-Year Economic and Fiscal Outlook 2006-07* (MYEFO). In accrual terms, a fiscal surplus of \$10.0 billion is estimated for 2007-08 compared to \$9.9 billion at MYEFO. The fiscal outlook is for continuing underlying cash and fiscal surpluses in the forward years.

**Table 1: Australian Government general government sector budget aggregates<sup>(a)</sup>**

	Actual	Estimates		Projections		
	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
<b>Revenue (\$b)</b>	<b>221.9</b>	<b>235.5</b>	<b>246.8</b>	<b>260.7</b>	<b>274.6</b>	<b>287.3</b>
Per cent of GDP	23.0	22.8	22.5	22.8	23.1	22.9
<b>Expenses (\$b)</b>	<b>206.1</b>	<b>221.6</b>	<b>235.6</b>	<b>247.5</b>	<b>259.7</b>	<b>272.7</b>
Per cent of GDP	21.3	21.5	21.5	21.6	21.8	21.8
Net operating balance (\$b)	15.8	13.9	11.2	13.2	15.0	14.6
Net capital investment (\$b)	1.1	2.0	1.2	1.4	0.9	0.9
<b>Fiscal balance (\$b)</b>	<b>14.8</b>	<b>11.9</b>	<b>10.0</b>	<b>11.9</b>	<b>14.1</b>	<b>13.7</b>
Per cent of GDP	1.5	1.2	0.9	1.0	1.2	1.1
<b>Underlying cash balance (\$b)(b)</b>	<b>15.8</b>	<b>13.6</b>	<b>10.6</b>	<b>12.7</b>	<b>13.8</b>	<b>12.4</b>
Per cent of GDP	1.6	1.3	1.0	1.1	1.2	1.0
<i>Memorandum item:</i>						
Headline cash balance (\$b)	14.2	23.4	18.3	15.5	14.8	13.3

(a) All estimates are based on Government Finance Statistics (GFS) standards, but with goods and services tax (GST) revenue collected on behalf of the States and Territories netted off revenue and expenses.

(b) Excludes expected Future Fund earnings from 2005-06 onwards.

### VARIATIONS TO THE FISCAL BALANCE ESTIMATES

The upward revision of \$0.1 billion in the 2007-08 fiscal surplus since MYEFO reflects higher than anticipated tax revenue and lower than anticipated spending, offset by the cost of additional personal income tax relief and other new policy measures.

Table 2 provides a reconciliation of the fiscal balance estimates between the 2006-07 Budget, the 2006-07 MYEFO and the 2007-08 Budget.

**Table 2: Reconciliation of 2006-07 Budget, 2006-07 MYEFO and 2007-08 Budget fiscal balance estimates<sup>(a)</sup>**

	Estimates		Projections	
	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m
<b>2006-07 Budget fiscal balance</b>	<b>10,290</b>	<b>9,940</b>	<b>10,566</b>	<b>12,972</b>
Per cent of GDP	1.0	0.9	1.0	1.1
<b>Changes between 2006-07 Budget and MYEFO</b>				
Effect of policy decisions(b)				
Revenue	-202	-1,609	-1,608	-1,753
Expenses	1,969	3,648	2,986	2,868
Net capital investment	159	134	106	307
Total policy decisions impact on fiscal balance	-2,330	-5,392	-4,700	-4,928
Effect of parameter and other variations				
Revenue	424	3,664	5,131	4,532
Expenses	-2,524	-1,883	-1,403	-2,792
Net capital investment	489	169	507	641
Total parameter and other variations impact on fiscal balance	2,459	5,378	6,028	6,683
<b>2006-07 MYEFO fiscal balance</b>	<b>10,420</b>	<b>9,926</b>	<b>11,893</b>	<b>14,728</b>
Per cent of GDP	1.0	0.9	1.0	1.2
<b>Changes between MYEFO and 2007-08 Budget</b>				
Effect of policy decisions(b)				
Revenue	-16	-5,581	-8,221	-8,497
Expenses	4,189	6,375	7,949	10,468
Net capital investment	26	352	250	80
Total policy decisions impact on fiscal balance	-4,231	-12,307	-16,419	-19,045
Effect of parameter and other variations				
Revenue	3,670	9,615	13,345	14,728
Expenses	-1,739	-3,106	-2,954	-3,484
Net capital investment	-291	341	-87	-205
Total parameter and other variations impact on fiscal balance	5,700	12,380	16,386	18,418
<b>2007-08 Budget fiscal balance</b>	<b>11,888</b>	<b>9,999</b>	<b>11,860</b>	<b>14,101</b>
Per cent of GDP	1.2	0.9	1.0	1.2

(a) A positive number for revenue indicates an increase in the fiscal balance, while a positive number for expenses and net capital investment indicates a decrease in the fiscal balance.

(b) Excludes the public debt net interest effect of policy measures.

## Variations in revenue estimates

Total revenue for 2007-08 has been revised up by \$4.0 billion since the 2006-07 MYEFO.

The upward revision represents the flow-on effect of stronger than expected labour market outcomes, together with a stronger outlook for corporate profits in 2007. These upward revisions have been partly offset by the impact of the Government's decision to provide personal income tax relief worth \$5.3 billion in 2007-08 and \$31.5 billion over the forward estimates.

Other major policy decisions affecting revenue over the four year period from 2007-08 to 2010-11 include:

- converting the Child Care Tax Rebate to a direct payment administered through the Department of Families, Community Services and Indigenous Affairs, which will increase revenue by \$1.4 billion over the forward estimates period. This increase is more than offset by the increase in expenses arising from the measure;
- increasing the dependent spouse rebate to \$2,100 from 1 July 2007, at a cost to revenue of \$425 million over the forward estimates period;
- not proceeding with the Review of Business Taxation recommendation relating to the taxation of finance leasing at a cost of \$260 million over the forward estimates; and
- relaxing the beneficial ownership provisions of the premium 175 per cent research and development (R&D) tax concession, to allow certain entities to claim deductions for their incremental R&D expenditure where the resulting intellectual property is held overseas. The measure is expected to have a cost to revenue of \$200 million over the forward estimates period.

Looking ahead, economic conditions remain supportive of continued strength in underlying revenue, particularly through compensation of employees, company profits and the realisation of capital gains by investors.

Further detail on how the revised outlook for the economy has affected individual revenue heads over the forward estimates is provided in Statement 5. An analysis of the sensitivity of the taxation revenue estimates to changes in the economic parameters is provided in Appendix C.

Non-taxation revenue in 2007-08 is expected to be \$520 million higher than the MYEFO estimate, including a \$237 million increase in Reserve Bank of Australia dividends largely due to previously unanticipated realised gains in 2006-07, and a \$235 million increase in interest received by the Australian Office of Financial Management on term deposits.

### **Variations in expense estimates**

Since MYEFO, estimated expenses for 2007-08 have increased by \$3.3 billion reflecting increased expenses from new policy decisions of \$6.4 billion, partially offset by parameter and other variations of \$3.1 billion.

Major policy decisions since MYEFO that have increased expenses include:

- \$658 million in 2007-08 (\$3.3 billion over five years including \$452 million in 2006-07) to convert the existing Child Care Tax Rebate to a direct payment and to

## Statement 2: Fiscal Outlook

increase the rate of Child Care Benefit by 10 per cent (these costs are partially offset by an increase in revenue of \$1.4 billion);

- \$621 million in 2007-08 (\$6.6 billion over 13 years) to acquire Super Hornet aircraft for the Australian Defence Force which will improve Australia's air combat capability edge by introducing enhanced sensors, weapon and networking capabilities;
- \$534 million in 2007-08 (\$2.6 billion over four years) to increase the level and effectiveness of Australia's Official Development Assistance;
- \$531 million in 2007-08 (\$3.5 billion over four years) for investment in Australia's education system under the *Realising Our Potential* package; and
- \$448 million in 2007-08 (\$703 million over four years including \$32.4 million in 2006-07) to enhance Australia's military contribution to the reconstruction and rehabilitation of Afghanistan.

In 2007-08, parameter and other variations have decreased forecast expenses by \$3.1 billion since MYEFO largely reflecting:

- a \$993 million reduction in expenses arising from delays to some Defence acquisition projects;
- a \$477 million reduction in expenses for Newstart Allowance arising from a lower than anticipated increase following implementation of the Government's Welfare to Work measures;
- a \$276 million reduction under the Water Smart Australia programme primarily due to slippage in grant payments and fewer than expected projects from the 2006-07 grant round;
- a \$245 million reduction in expenses for Parenting Payment due to a reduction in the expected number of benefit recipients following implementation of the Government's Welfare to Work measures and strong labour market conditions; and



- the regular draw-down of the conservative bias allowance<sup>1</sup> reducing estimated expenses in 2007-08 by around \$1 billion.

The above decreases in expenses are partially offset by:

- a \$460 million increase in expenses due to higher than expected penalties remissions by the Australian Taxation Office;
- a \$336 million increase in expenses for Medicare Services reflecting higher than anticipated demand for pathology services, diagnostic imaging, and services provided by general practitioners; and
- a \$283 million increase in expenses for the Private Health Insurance Rebate reflecting annual premium increases, a trend for private health insurance customers to take out higher priced policies and an increase in private health insurance participation.

In 2006-07, estimated expenses have increased by \$2.5 billion since MYEFO. This largely reflects new spending of \$4.2 billion, including:

- \$1.3 billion for a one-off payment of \$500 to eligible older Australians;
- \$1.1 billion to pay a one-off additional superannuation co-contribution for those persons who made eligible contributions in the 2005-06 income year;
- \$486 million to fund a variety of development and expansion projects by medical research facilities and the operations of the Australian Synchrotron;
- \$390 million for a lump sum payment to eligible carers, in recognition of their contribution in caring for people with disabilities and the frail aged; and
- \$250 million for the Auslink Strategic Regional Programme to fund contributions to road, rail and multi-modal projects in Australia's regions.

These measures are partially offset by reductions in parameter and other variations including a \$301 million reduction in Newstart Allowance and a \$222 million reduction in Family Tax Benefit expenses.

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1 The forward estimates include an allowance for the established tendency of existing Government policy (particularly demand driven programmes) to be higher than estimated in the forward years. To offset this, the contingency reserve includes an allowance based on past experience to preserve the overall integrity of the forward estimates. This allowance, known as the conservative bias allowance, is progressively reduced so that the budget year conservative bias is zero by budget night.

More detailed information on expenses can be found in Statement 6. A full description of all policy measures since MYEFO can be found in Budget Paper No. 2, *Budget Measures 2007-08*.

### **Variations in net capital investment estimates**

In 2007-08, forecast net capital investment has increased by \$693 million since MYEFO. This represents the combined effect of:

- new policy measures of \$352 million, including \$118 million for the Strengthening National Security package of measures; \$37 million for the Australian Securities and Investments Commission's redevelopment of information technology systems; and \$30 million for the Australian Nuclear Science and Technology Organisation's automation of production processes for radiopharmaceuticals; and
- parameter and other variations of \$341 million, including \$75 million for the Health and Social Services Access Card programme, reflecting changes in the project timetable and associated movements between expense and capital; \$34 million for Defence commercial vehicle sales; and \$33 million for the fit out of the Anzac Park office buildings.

In 2006-07, estimated net capital investment has decreased by \$265 million since MYEFO, including \$70 million for Health Emergency Planning and Response as a result of unavoidable delays in the purchase of items in the national medical stockpile, and \$21 million reflecting delays in the construction of significant aged care payments systems.

### **CASH FLOWS**

In 2007-08, an underlying cash surplus of \$10.6 billion is expected, compared with the MYEFO estimate of \$9.7 billion. While the 2007-08 underlying cash balance has increased by \$1.0 billion, the fiscal balance has increased by only \$0.1 billion compared to the MYEFO estimate of \$9.9 billion. This difference between the change in the underlying cash balance and the fiscal balance is largely attributable to the increase in penalty remissions expenses by the Australian Taxation Office, which do not have a cash impact.

Table 3 provides a summary of Australian Government general government sector cash flows.

**Table 3: Summary of Australian Government general government sector cash flows<sup>(a)</sup>**

	Estimates		Projections		
	2006-07	2007-08	2008-09	2009-10	2010-11
	\$b	\$b	\$b	\$b	\$b
Cash receipts					
Operating cash receipts					
excluding Future Fund earnings	232.3	242.4	256.2	269.9	282.7
Future Fund earnings	2.1	3.0	2.8	2.9	3.0
<i>Total operating receipts</i>	<i>234.4</i>	<i>245.4</i>	<i>259.0</i>	<i>272.8</i>	<i>285.7</i>
Capital cash receipts(b)	0.2	0.3	0.2	0.1	0.1
Total cash receipts	234.6	245.6	259.2	272.9	285.8
Cash payments					
Operating cash payments	215.2	228.3	239.8	252.9	267.2
Capital cash payments(c)	3.6	3.7	3.4	3.3	3.2
Total cash payments	218.8	232.0	243.2	256.2	270.4
Finance leases and similar arrangements(d)	0.0	0.0	-0.5	0.0	0.0
<b>GFS cash surplus(+)/deficit(-)</b>	<b>15.8</b>	<b>13.6</b>	<b>15.5</b>	<b>16.7</b>	<b>15.4</b>
Per cent of GDP	1.5	1.2	1.4	1.4	1.2
<i>less</i> Future Fund earnings	2.1	3.0	2.8	2.9	3.0
<b>Underlying cash balance(e)</b>	<b>13.6</b>	<b>10.6</b>	<b>12.7</b>	<b>13.8</b>	<b>12.4</b>
Per cent of GDP	1.3	1.0	1.1	1.2	1.0
<i>Memorandum items:</i>					
Net cash flows from investments in financial assets for policy purposes(f)	7.6	4.7	0.0	-1.9	-2.1
<i>plus</i> Future Fund earnings(g)	2.1	3.0	2.8	2.9	3.0
<b>Headline cash balance</b>	<b>23.4</b>	<b>18.3</b>	<b>15.5</b>	<b>14.8</b>	<b>13.3</b>

(a) Cash flows are derived from the accrual GFS framework excluding GST.

(b) Equivalent to cash receipts from the sale of non-financial assets in the GFS cash flow statement.

(c) Equivalent to cash payments for purchases of new and second hand non-financial assets in the GFS cash flow statement.

(d) The acquisition of assets under finance leases decreases the underlying cash balance. The disposal of assets previously held under finance leases increases the underlying cash balance.

(e) Excludes expected Future Fund earnings from 2005-06 onwards.

(f) Under the cash budgeting framework, these cash flows were referred to as net advances.

(g) The earnings assume the gross proceeds from the sale of Telstra are transferred to the Future Fund. The Fund is assumed to earn a rate of return initially equal to the yield on other term deposits held by the Government then increasing to a rate consistent with the benchmark return specified in the Government's investment mandate. The earnings exclude capital gains which are reflected in the statement of other economic flows (Table B4).

Table 4 provides a reconciliation of the variations in the underlying cash balance estimates.

**Table 4: Reconciliation of Australian Government general government sector underlying cash balance estimates**

	Estimates		Projections	
	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m
<b>2006-07 Budget underlying cash balance</b>	<b>10,828</b>	<b>10,628</b>	<b>11,225</b>	<b>12,019</b>
<b>Changes from 2006-07 Budget to MYEFO</b>				
Effect of policy decisions(a)	-2,317	-5,455	-4,712	-5,010
Effect of parameter and other variations	3,316	4,489	5,331	6,987
<b>Total variations</b>	<b>999</b>	<b>-966</b>	<b>618</b>	<b>1,977</b>
<b>2006-07 MYEFO underlying cash balance</b>	<b>11,827</b>	<b>9,662</b>	<b>11,844</b>	<b>13,997</b>
<b>Changes from MYEFO to 2007-08 Budget</b>				
Effect of policy decisions(a)	-3,937	-11,885	-15,880	-18,467
Effect of parameter and other variations	5,741	12,861	16,747	18,282
<b>Total variations</b>	<b>1,804</b>	<b>975</b>	<b>867</b>	<b>-185</b>
<b>2007-08 Budget underlying cash balance(b)</b>	<b>13,631</b>	<b>10,637</b>	<b>12,712</b>	<b>13,812</b>

(a) Excludes the public debt net interest effect of policy measures.

(b) Excludes expected Future Fund earnings from 2005-06 onwards.

## Headline cash balance

A headline cash surplus of \$18.3 billion is now forecast for 2007-08 compared with a surplus of \$17.6 billion at MYEFO. The increase in the headline cash surplus since MYEFO largely reflects the higher than expected underlying cash balance surplus.

## NET DEBT AND NET WORTH

Net debt was eliminated in 2005-06, falling from a peak of 18.5 per cent of GDP in 1995-96. Since the 2006-07 MYEFO, the forecast level of net debt has fallen from -\$11.0 billion to -\$12.0 billion. This reflects a higher than anticipated estimated underlying cash surplus in 2007-08.

As a result of the lower level of net debt, net interest payments are expected to be eliminated in 2007-08. Net interest payments peaked at \$8.4 billion in 1996-97, but from 2007-08 the Government will have net interest receipts of \$391 million.

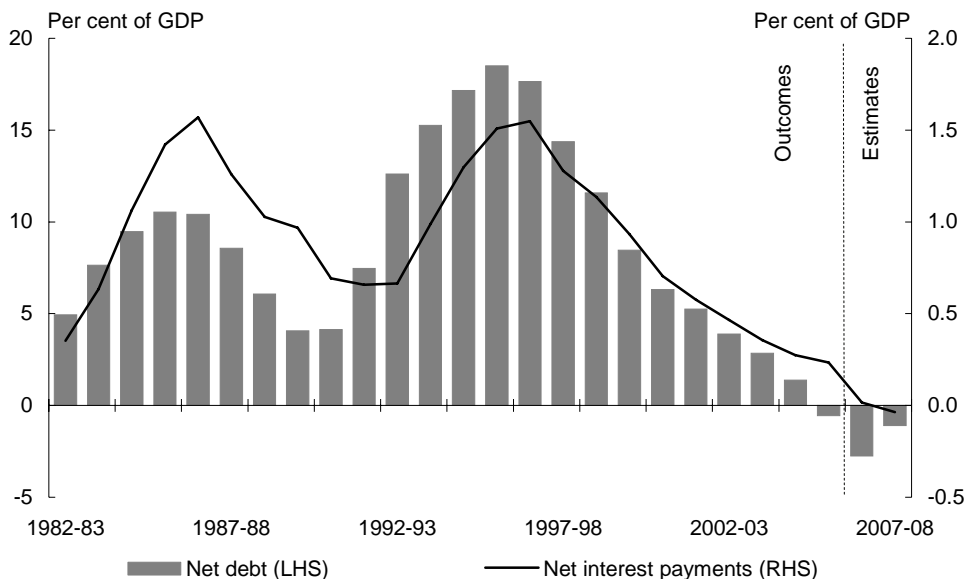
Australian Government general government sector net worth is expected to be -\$0.6 billion in 2007-08 compared with -\$2.6 billion at the 2006-07 MYEFO. Net worth over the forward estimates is expected to improve and is projected to become positive in 2008-09.

Table 5 and Chart 1 provide a summary of Australian Government general government sector net worth, net debt and net interest payments.

**Table 5: Australian Government general government sector net worth, net debt and net interest payments**

	Estimates		Projections		
	2006-07 \$b	2007-08 \$b	2008-09 \$b	2009-10 \$b	2010-11 \$b
Financial assets	151.1	166.6	184.9	202.8	214.0
Non-financial assets	47.8	49.1	50.6	51.5	52.6
<b>Total assets</b>	<b>198.9</b>	<b>215.7</b>	<b>235.5</b>	<b>254.3</b>	<b>266.5</b>
<b>Total liabilities</b>	<b>209.8</b>	<b>216.3</b>	<b>221.4</b>	<b>225.2</b>	<b>222.4</b>
<b>Net worth</b>	<b>-10.9</b>	<b>-0.6</b>	<b>14.1</b>	<b>29.1</b>	<b>44.1</b>
<b>Net debt(a)(b)</b>	<b>-28.4</b>	<b>-12.0</b>	<b>-28.4</b>	<b>-43.9</b>	<b>-59.2</b>
Per cent of GDP	-2.8	-1.1	-2.5	-3.7	-4.7
<b>Net interest payments</b>	<b>0.2</b>	<b>-0.4</b>	<b>-0.2</b>	<b>-1.2</b>	<b>-1.1</b>
Per cent of GDP	0.0	0.0	0.0	-0.1	-0.1

- (a) Net debt equals the sum of deposits held, advances received, Government securities, loans and other borrowing, minus the sum of cash and deposits, advances paid and investments, loans and placements.
- (b) Includes the impact of the sale of the Government's holding in Telstra. The net debt estimate in 2007-08 assumes that the Future Fund will increasingly be invested in equities, which are not included in the calculation of net debt.

**Chart 1: Australian Government general government sector net debt and net interest payments**

Source: Data are from ABS cat. no. 5501.0, Australian Government Final Budget Outcomes and Treasury estimates.

## **MEDIUM-TERM FISCAL OUTLOOK**

### **Importance of fiscal sustainability**

The Government's economic and budget management over the past decade has delivered strong fiscal outcomes and supported economic growth. Delivering sustainable fiscal policy is a key requirement of good government. It avoids costly burdens being placed on future generations, as well as providing a secure and stable investment environment that encourages growth.

A sound fiscal policy framework involves maintaining government debt at sustainable levels, ensuring that government has the capacity to finance its continuing expenditure programmes and other budgetary obligations, and managing the Government's exposure to fiscal risks. The Government is continuing to address these issues through making necessary reforms today to avoid the need for larger adjustments in the future.

### **Fiscal outlook**

The Government has achieved strong fiscal outcomes over recent years which have allowed it to eliminate net debt and establish the Future Fund. By eliminating net debt, the Government has put its finances in a sound position and has created a positive investment environment as investors and consumers have greater certainty about the stability of government finances. By setting aside resources in the Future Fund for the Australian Government's largest balance sheet liability – its superannuation obligation to its employees – the Government has ensured that these superannuation costs are not passed on to future generations.

The second Intergenerational Report released in April 2007 (IGR2) showed that the Government's long-term fiscal sustainability has improved since the first report in May 2002 (IGR1). In IGR2, the 'fiscal gap', or the amount by which spending is expected to exceed revenue, was projected to be around 3½ per cent of GDP by 2046-47. This compares to a projected fiscal gap in IGR1 of 5 per cent of GDP by 2041-42.

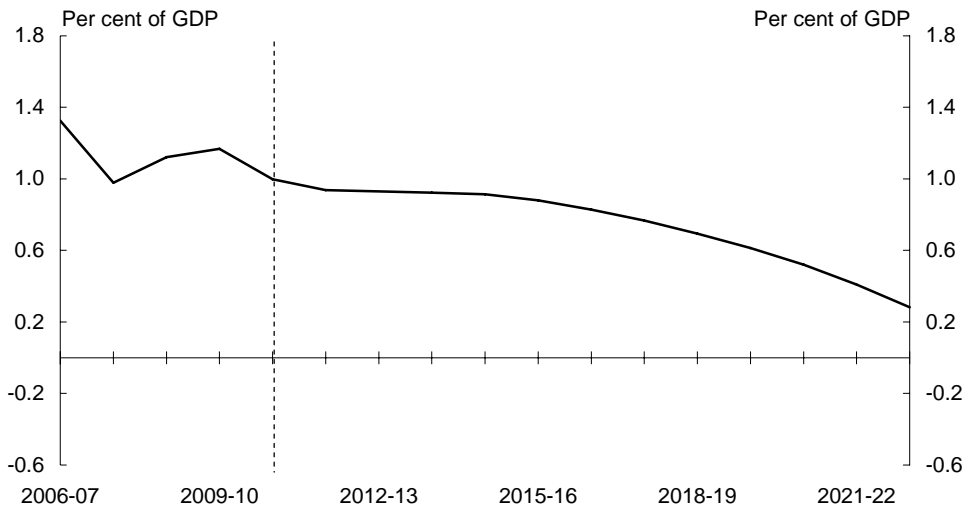
Although this is an improvement, demographic and other factors will continue to pose substantial challenges for economic growth and long-term fiscal sustainability. These factors will also present a challenge over the medium term.

Chart 2 provides illustrative projections of fiscal pressures over the next 15 years, based on the IGR2 projections. As a base, the IGR2 projections were modelled using the forward estimates from the 2006-07 MYEFO updated for major announced spending measures up to the time of the release of IGR2. The medium-term projections in Chart 2 apply IGR2 growth rates for spending from the end of the current forward estimates period included in the 2007-08 Budget. Like IGR2, revenue is assumed to remain at a constant percentage of GDP from the end of the forward estimates period.

The medium-term fiscal projections in Chart 2 include net interest payments to be on a consistent basis with the underlying cash balance across the forward estimates period. This approach differs from IGR2 where, consistent with other international long-term budget reports, the fiscal projections were modelled using the primary balance which excludes net interest payments. Primary balance is used in such reports because debt dynamics can dominate and obscure the underlying fiscal pressures that need to be addressed. The long-term fiscal gap represents a policy choice that can potentially be avoided. In contrast, policy over the short to medium-term is more certain and financing therefore becomes more relevant.

The medium-term fiscal projections show that without policy change projected spending pressures identified in IGR2 are expected to erode much of the strong fiscal starting point over the next 15 years.

**Chart 2: Fiscal projections over the medium term**



Source: Treasury projections.

The spending pressures identified in IGR2 will see government spending increasing as a percentage of GDP from around 22 per cent currently to above 25 per cent in 2046-47 (Box 1).

**Box 1: Trends in Australian Government spending and economic growth**

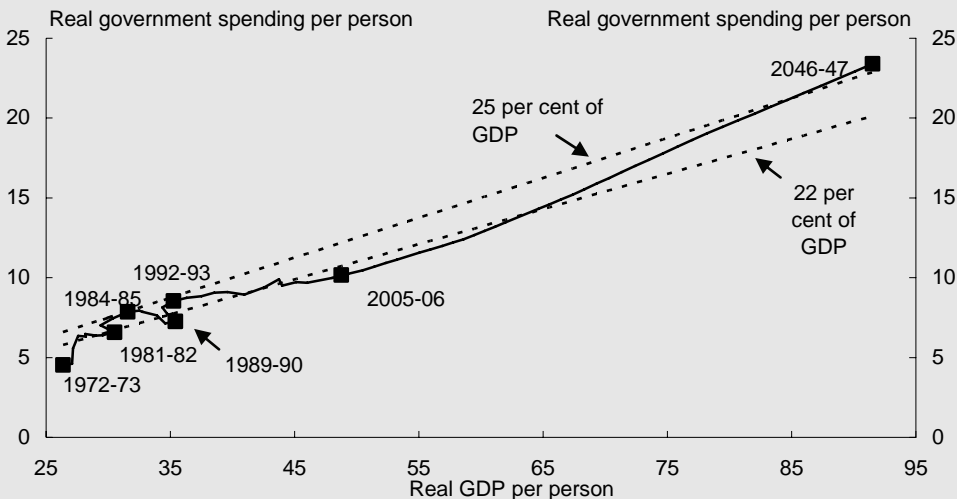
Chart 3 is a scatter chart showing real government spending per person (excluding interest) against real GDP per person from 1972-73 through to the end of the IGR2 projection period of 2046-47. Both spending and GDP are deflated by the GDP deflator. The ratio of real government spending per person to real GDP per person is equal to the ratio of government spending to GDP.

As Chart 3 shows, the historical ratio of government spending to GDP has been relatively stable, not exceeding 25 per cent. The ratio of spending to GDP tends to rise during periods of economic slowdown. This is due to both a slowing in GDP growth and an increase in real spending from automatic stabilisers and discretionary policy decisions. This is most notable in Chart 3 during both the early 1980s and the early 1990s slowdown.

In the long-term, demographic and other factors highlighted in IGR2 will place pressure on government spending per person and slow the rate of growth of GDP per person, pushing the ratio of government spending to GDP above 25 per cent towards the end of the IGR2 projection period.

Steps to manage these fiscal pressures will need to continue to address the growth in government spending and sustainably lift economic growth. The latter will be the key determinant of the Government’s capacity to deal with future fiscal challenges over the medium term.

**Chart 3: Trends in Australian Government spending and economic growth<sup>(a)(b)</sup>**  
(thousands of dollars, 2006-07)



(a) There is a structural break in the series between 1998-99 and 1999-00 due to methodological and data source changes associated with the move to an accrual accounting framework.  
 (b) The provision of GST revenue to the States and Territories from 2000-01 under the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* is not included in Australian Government spending.



## APPENDIX A: REPORTING STANDARDS

The *Charter of Budget Honesty Act 1998* requires that the budget be based on external reporting standards, and that departures from applicable external reporting standards be identified.

The major external standards used for budget reporting purposes are:

- the Australian Bureau of Statistics' (ABS) accrual Government Finance Statistics (GFS) publication, *Australian System of Government Finance Statistics: Concepts, Sources and Methods* cat. no. 5514.0, which in turn is based on the International Monetary Fund (IMF) accrual GFS framework; and
- Australian Accounting Standards (AAS), being the Australian Equivalents to International Financial Reporting Standards (AEIFRS) and AAS 31 *Financial Reporting by Governments*.

The budget tables, with the exception of tables in Statement 9, do not include goods and services tax (GST) collections and equivalent payments to the States and Territories (the States). Under the *Intergovernmental Agreement on the Reform of Commonwealth State Financial Relations*, all GST receipts are appropriated to the States and thus are not available for expenditure by the Australian Government. Because the Australian Taxation Office collects GST as an agent for the States, GST receipts are not shown as Australian Government revenue. Estimates of GST receipts are provided in Table 2 of Statement 8.

ABS GFS requires that provisions for bad and doubtful debts be excluded from the balance sheet. This treatment has not been adopted because excluding such provisions would overstate the value of Australian Government assets in the balance sheet (and would, therefore, be inconsistent with the market valuation principle).

The AAS financial statements currently record IMF Special Drawing Rights (SDRs) as a liability. This is consistent with AAS. The GFS statements also record SDRs as a liability. However, in accordance with the IMF's GFS manual, IMF SDRs are not treated as a liability in ABS GFS although the IMF treats them this way in some of its other documentation. As the statistical standard underpinning the GFS manual (the System of National Accounts 1993) is currently being updated and includes a proposal to treat SDRs as a liability, the current approach will remain in place at least until this update is finalised.

The GFS financial statements currently adopt the AAS treatment for circulating coins. Under this treatment revenue is recognised upon the issue of coins and no liability is recorded, as there is no legal obligation requiring coins on issue to be repurchased by the Australian Government. However, in ABS GFS, coins on issue are treated as a liability and no revenue is recognised. The treatment of coins on issue is listed for

## *Statement 2: Fiscal Outlook*

clarification as part of the update of the statistical standard referred to above and the current treatment will remain in place at least until the update is finalised.

ABS GFS also requires defence weapons be treated as expenses. The update of the statistical standard is expected to change the treatment of defence weapons to assets and the current treatment is expected to remain in place at least until the update is finalised.

Defence weapons inventories are recorded as capital investment rather than expenses until such inventories can be reliably identified and measured. This treatment does not affect the underlying cash and fiscal balances.

Additional information on the reporting standards and budget concepts is provided in Statement 8.

## **APPENDIX B: BUDGET FINANCIAL STATEMENTS**

The budget financial statements consist of an operating statement, balance sheet, cash flow statement and statement of other economic flows (reconciliation of net worth) for the Australian Government general government sector. The budget financial statements are based on GFS standards with the exception of the divergences discussed in Appendix A.

**Table B1: Australian Government general government sector operating statement**

	Estimates		Projections		
	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m	2010-11 \$m
<b>Revenue</b>					
Taxation revenue	220,466	231,069	244,066	256,636	267,262
Current grants and subsidies	0	0	0	0	0
Sales of goods and services	5,008	5,220	5,362	5,541	5,950
Interest income	3,841	4,147	3,979	4,879	4,562
Dividend income	2,774	2,966	3,832	3,944	4,035
Other	3,449	3,357	3,487	3,615	5,504
<b>Total revenue</b>	<b>235,539</b>	<b>246,761</b>	<b>260,726</b>	<b>274,614</b>	<b>287,312</b>
<b>Expenses</b>					
Gross operating expenses					
Depreciation	2,216	2,478	2,638	2,720	2,717
Superannuation	2,371	2,487	2,536	2,593	2,672
Salaries and wages	13,854	14,701	14,802	15,209	15,650
Payment for supply of goods and services	50,931	55,684	58,857	62,020	65,562
Other operating expenses	3,151	3,463	3,750	3,930	4,448
<i>Total gross operating expenses</i>	<i>72,523</i>	<i>78,813</i>	<i>82,584</i>	<i>86,472</i>	<i>91,049</i>
Nominal superannuation interest expense	5,730	6,192	6,294	6,517	6,706
Other interest expenses	3,957	3,836	3,754	3,722	3,588
Other property expenses	0	0	0	0	0
Current transfers					
Grant expenses	41,702	45,007	46,568	48,445	50,602
Subsidy expenses	6,890	7,337	7,498	7,691	7,945
Personal benefit payments in cash	85,036	87,448	93,323	99,410	105,498
Other current transfers	0	0	0	0	0
<i>Total current transfers</i>	<i>133,628</i>	<i>139,792</i>	<i>147,389</i>	<i>155,545</i>	<i>164,045</i>
Capital transfers	5,786	6,958	7,467	7,395	7,281
<b>Total expenses</b>	<b>221,625</b>	<b>235,590</b>	<b>247,489</b>	<b>259,652</b>	<b>272,669</b>
<b>Net operating balance</b>	<b>13,914</b>	<b>11,170</b>	<b>13,237</b>	<b>14,962</b>	<b>14,643</b>
<b>Net acquisition of non-financial assets</b>					
Purchases of non-financial assets	3,675	3,689	3,864	3,328	3,537
<i>less</i> Sales of non-financial assets	184	199	216	109	109
<i>less</i> Depreciation	2,216	2,478	2,638	2,720	2,717
<i>plus</i> Change in inventories	624	111	187	215	411
<i>plus</i> Other movements in non-financial assets	126	49	180	148	-182
<b>Total net acquisition of non-financial assets</b>	<b>2,025</b>	<b>1,171</b>	<b>1,377</b>	<b>861</b>	<b>939</b>
<b>Net lending/fiscal balance(a)</b>	<b>11,888</b>	<b>9,999</b>	<b>11,860</b>	<b>14,101</b>	<b>13,704</b>

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

**Table B2: Australian Government general government sector balance sheet**

	Estimates		Projections		
	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m	2010-11 \$m
<b>Assets</b>					
Financial assets					
Cash and deposits	2,008	2,348	2,778	2,297	2,121
Advances paid	22,468	24,122	25,849	27,439	29,277
Investments, loans and placements	67,820	51,488	66,025	79,643	85,457
Other non-equity assets	27,543	20,655	20,021	20,239	20,751
Equity(a)	31,260	68,014	70,223	73,195	76,379
<i>Total financial assets</i>	<i>151,099</i>	<i>166,627</i>	<i>184,896</i>	<i>202,813</i>	<i>213,986</i>
Non-financial assets					
Land	6,181	6,276	6,365	6,355	6,402
Buildings	15,193	15,782	16,938	17,652	18,351
Plant, equipment and infrastructure	9,481	9,898	9,881	9,748	9,824
Inventories	5,532	5,643	5,830	6,045	6,456
Heritage and cultural assets	8,074	8,109	8,134	8,164	8,188
Other non-financial assets	3,382	3,358	3,406	3,518	3,335
<i>Total non-financial assets</i>	<i>47,844</i>	<i>49,067</i>	<i>50,555</i>	<i>51,483</i>	<i>52,556</i>
<b>Total assets</b>	<b>198,942</b>	<b>215,695</b>	<b>235,451</b>	<b>254,297</b>	<b>266,542</b>
<b>Liabilities</b>					
Deposits held	300	300	300	300	300
Advances received	0	0	0	0	0
Government securities	57,275	59,269	59,355	58,723	50,715
Loans	5,846	5,940	5,774	5,653	5,834
Other borrowing	431	400	856	816	773
Superannuation liability	102,744	106,552	110,264	113,983	117,720
Other employee entitlements and provisions	8,215	8,465	8,815	9,185	9,606
Other non-equity liabilities	34,982	35,355	36,022	36,515	37,456
<b>Total liabilities</b>	<b>209,795</b>	<b>216,282</b>	<b>221,387</b>	<b>225,175</b>	<b>222,404</b>
<b>Net worth(b)</b>	<b>-10,852</b>	<b>-587</b>	<b>14,064</b>	<b>29,122</b>	<b>44,137</b>
Net debt(c)(d)	-28,444	-12,049	-28,366	-43,887	-59,233

(a) Equity includes holdings of the Future Fund.

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

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

(d) Includes the impact of the sale of the Government's holding in Telstra. The net debt estimate in 2007-08 assumes that the Future Fund will increasingly be invested in equities, which are not included in the calculation of net debt.

**Table B3: Australian Government general government sector cash flow statement<sup>(a)</sup>**

	Estimates		Projections		
	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m	2010-11 \$m
<b>Cash receipts from operating activities</b>					
Taxes received	216,400	226,857	239,562	252,073	262,845
Receipts from sales of goods and services	5,221	5,437	5,596	5,749	6,160
Grants and subsidies received	0	0	0	0	0
Interest receipts	3,736	3,992	3,743	4,636	5,391
Dividends	3,120	2,926	3,837	3,949	4,085
GST input credits received by general government	3,027	2,988	2,996	3,058	3,121
Other receipts	2,932	3,160	3,263	3,357	4,133
<b>Total operating receipts</b>	<b>234,435</b>	<b>245,361</b>	<b>258,996</b>	<b>272,824</b>	<b>285,735</b>
<b>Cash payments for operating activities</b>					
Payments for goods and services	-55,675	-61,382	-64,283	-67,436	-70,468
Grants and subsidies paid	-52,340	-56,202	-57,679	-60,670	-63,179
Interest paid	-3,911	-3,601	-3,582	-3,461	-4,340
Personal benefit payments	-81,929	-84,687	-90,786	-97,076	-103,443
Salaries, wages and other entitlements	-18,558	-19,628	-19,998	-20,640	-22,041
GST payments by general government to taxation authority	-79	-81	-82	-85	-87
Other payments for operating activities	-2,734	-2,745	-3,428	-3,516	-3,641
<b>Total operating payments</b>	<b>-215,225</b>	<b>-228,326</b>	<b>-239,838</b>	<b>-252,884</b>	<b>-267,199</b>
<b>Net cash flows from operating activities</b>	<b>19,210</b>	<b>17,035</b>	<b>19,159</b>	<b>19,940</b>	<b>18,536</b>
<b>Cash flows from investments in non-financial assets</b>					
Sales of non-financial assets	184	250	222	114	104
Purchases of non-financial assets	-3,599	-3,654	-3,373	-3,323	-3,198
<b>Net cash flows from investments in non-financial assets</b>	<b>-3,415</b>	<b>-3,404</b>	<b>-3,152</b>	<b>-3,209</b>	<b>-3,094</b>
<b>Net cash flows from investments in financial assets for policy purposes</b>	<b>7,649</b>	<b>4,652</b>	<b>-18</b>	<b>-1,923</b>	<b>-2,150</b>
<b>Cash flows from investments in financial assets for liquidity purposes</b>					
Increase in investments	-22,476	-19,918	-15,425	-14,274	-6,372
<b>Net cash flows from investments in financial assets for liquidity purposes</b>	<b>-22,476</b>	<b>-19,918</b>	<b>-15,425</b>	<b>-14,274</b>	<b>-6,372</b>
<b>Cash flows from financing activities</b>					
Advances received (net)	0	0	0	0	0
Borrowing (net)	-1,312	2,336	154	-705	-6,987
Deposits received (net)	-20	0	0	0	0
Other financing (net)	426	-361	-289	-310	-108
<b>Net cash flows from financing activities</b>	<b>-905</b>	<b>1,976</b>	<b>-134</b>	<b>-1,014</b>	<b>-7,096</b>
<b>Net increase/decrease in cash held</b>	<b>63</b>	<b>340</b>	<b>430</b>	<b>-481</b>	<b>-176</b>

**Table B3: Australian Government general government sector cash flow statement<sup>(a)</sup> (continued)**

	Estimates		Projections		
	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m	2010-11 \$m
<b>Net cash from operating activities and investments in non-financial assets</b>	<b>15,795</b>	<b>13,631</b>	<b>16,007</b>	<b>16,731</b>	<b>15,442</b>
Finance leases and similar arrangements(b)	-34	-4	-502	-6	0
<b>GFS cash surplus(+)/deficit(-)</b>	<b>15,761</b>	<b>13,628</b>	<b>15,505</b>	<b>16,725</b>	<b>15,442</b>
<i>less</i> Future Fund earnings	2,130	2,991	2,793	2,913	2,994
<b>Equals underlying cash balance(c)</b>	<b>13,631</b>	<b>10,637</b>	<b>12,712</b>	<b>13,812</b>	<b>12,447</b>
<i>plus</i> net cash flows from investments in financial assets for policy purposes	7,649	4,652	-18	-1,923	-2,150
<i>plus</i> Future Fund earnings	2,130	2,991	2,793	2,913	2,994
<b>Equals headline cash balance</b>	<b>23,410</b>	<b>18,280</b>	<b>15,487</b>	<b>14,802</b>	<b>13,292</b>

(a) A positive number denotes a cash inflow, a negative sign denotes a cash outflow.

(b) The acquisition of assets under finance leases decreases the underlying cash balance. The disposal of assets previously held under finance leases increases the underlying cash balance.

(c) The term underlying cash balance is not used by the ABS.

**Table B4: Australian Government general government sector statement of other economic flows (reconciliation of net worth)**

	Estimates		Projections		
	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m	2010-11 \$m
<b>Opening net worth</b>	<b>-23,122</b>	<b>-10,852</b>	<b>-587</b>	<b>14,064</b>	<b>29,122</b>
<b>Opening net worth adjustments(a)</b>	287	0	0	0	0
<b>Adjusted opening net worth</b>	<b>-22,835</b>	<b>-10,852</b>	<b>-587</b>	<b>14,064</b>	<b>29,122</b>
<b>Change in net worth from operating transactions</b>	<b>13,914</b>	<b>11,170</b>	<b>13,237</b>	<b>14,962</b>	<b>14,643</b>
<b>Change in net worth from other economic flows</b>					
Revaluation of equity(b)	964	880	3,334	2,308	2,572
Net writedowns of assets (including bad and doubtful debts)	-2,050	-2,271	-2,023	-2,339	-2,448
Assets recognised for the first time	161	7	14	26	19
Liabilities recognised for the first time	0	0	0	0	0
Actuarial revaluations	-1,245	1	1	1	0
Net foreign exchange gains	-52	0	0	0	0
Net swap interest received	8	-76	-70	-60	-62
Market valuation of debt	564	212	124	92	105
Other economic revaluations(c)	-281	341	34	68	186
<b>Total other economic flows</b>	<b>-1,931</b>	<b>-905</b>	<b>1,414</b>	<b>96</b>	<b>373</b>
<b>Closing net worth</b>	<b>-10,852</b>	<b>-587</b>	<b>14,064</b>	<b>29,122</b>	<b>44,137</b>

(a) Change in net worth arising from a change in 2005-06 outcomes.

(b) Revaluations of equity reflects changes in the market valuation of investments. This line also reflects any revaluations at the point of disposal or sale.

(c) Largely reflects revaluation of assets and liabilities.



## APPENDIX C: SENSITIVITY OF FISCAL EXPENSES AND REVENUE TO ECONOMIC DEVELOPMENTS

A guide to the sensitivity of the forward estimates of expenses and revenue due to variations in economic parameters in 2007-08 is provided in Table C1. It is important to note that the sensitivity analysis gives only a 'rule of thumb' indication of the impact on the budget of changes in prices, wages and other parameters. In each case, the analysis presents the estimated effects of a change in one economic variable only, and does not attempt to capture the linkages between economic variables that characterise changes in the economy more broadly.

**Table C1: Sensitivity of fiscal expenses and revenue to changes in economic parameters**

	2007-08	2008-09	2009-10	2010-11
	\$m	\$m	\$m	\$m
<b>Expenses</b>				
Prices	730	820	870	880
Wages	120	520	550	570
Federal Minimum Wage decision	50	80	130	190
Unemployment benefit recipients	260	270	280	290
<b>Revenue</b>				
Prices	70	160	160	150
Wages	1,980	1,790	1,900	2,050
Employment	1,900	1,690	1,800	1,940
Private final demand	290	300	310	320
Profit	340	730	760	790

### EXPENSES

On the expenses side, the sensitivity analysis of the estimates provides for the following assumptions about changes to four broad groups of parameters. An increase in any of the parameters considered will lead to an increase in expenses, and a decrease in any of the parameters will lead to a reduction in expenses.

#### Prices

All price growth rates are assumed to change by one percentage point in the September quarter 2007, and to remain unchanged subsequently, with all wage and salary growth rates left unchanged through the budget and forward years.

- The effect of a change in prices is due to the indexation of Australian Government expenses (which impacts more in the forward years than the budget year) and a large one-off impact on military superannuation liabilities in 2007-08 (which in turn impacts on the defence superannuation interest expense).

## **Wages**

All wage and salary growth rates are assumed to change by one percentage point in the September quarter 2007, and to remain unchanged subsequently, with all price growth rates left unchanged through the budget and forward years.

- The effect of a change in wage and salary growth rates is largely due to the Government's commitment to maintain selected pensions at a minimum of 25 per cent of Male Total Average Weekly Earnings. This effect on pensions is smaller in the budget year than in each of the forward years due to the timing of adjustments to pension rates. The wages effect in Table C1 above does not include changes to wage and salary payments in Australian Government departmental expenses.

## **The Federal Minimum Wage decision**

The Federal Minimum Wage increase determined by the Australian Fair Pay Commission (AFPC) is assumed to be \$2 per week higher in the budget year and all forward years.

- Around \$65 billion of expenses in 2007-08, comprising agency departmental expenses, other Australian Government Own Purpose Expenses and Specific Purpose Payments to the States of a departmental expense nature, are indexed to weighted averages of movements in the Consumer Price Index and the Federal Minimum Wage decision.

## **Unemployment Benefit Recipients (Newstart Allowance and Unemployed Youth Allowance recipients)**

The total number of recipients is assumed to change by 5 per cent in the budget year and all the forward years.

## **REVENUE**

On the revenue side, the sensitivity analysis of the estimates provides for the following assumptions about changes to five broad groups of parameters. An increase in any of the parameters considered will lead to an increase in revenue and a decrease in any of the parameters will lead to a reduction in revenue.

### **Prices**

All price deflators and world oil prices are assumed to change by one percentage point at the start of the September quarter 2007, with wage deflators left unchanged.

- A change in prices affects revenue primarily through changes in excise revenue and petroleum resource rent tax.

## **Wages**

All wage and salary growth rates are assumed to change by one percentage point from the beginning of the September quarter 2007, with price deflators left unchanged.

- A change in wage and salary growth rates affects revenue through changes in gross income tax withholding, refunds, superannuation fund contributions tax, and fringe benefits tax.

## **Employment**

The level of employment is assumed to change by one percentage point from the beginning of the September quarter 2007, with no change in the composition of employment.

- A change in employment affects revenue through changes in gross income tax withholding, refunds, and superannuation fund contributions tax.

## **Private final demand**

The level of private final demand (consumption plus investment) is assumed to change by one percentage point from the beginning of the September quarter 2007, with no change in the composition of demand.

- A change in private final demand affects revenue primarily through changes in excise and customs duty collections.

## **Profits**

The level of profits is assumed to change by one percentage point from the beginning of the September quarter 2007.

- A change in the level of profits affects revenue through changes in company and other individuals tax collections.



# STATEMENT 3: ECONOMIC OUTLOOK

This statement presents the economic forecasts that underlie the budget estimates.

<b>Overview .....</b>	<b>3-3</b>
<b>The outlook for the international economy .....</b>	<b>3-8</b>
<b>The outlook for the domestic economy .....</b>	<b>3-13</b>
Key assumptions .....	3-13
Demand, output and income .....	3-13
Household consumption.....	3-14
Dwelling investment .....	3-17
Business investment .....	3-19
Inventories.....	3-20
Public final demand.....	3-21
Net exports .....	3-21
Terms of trade.....	3-22
Current account balance .....	3-24
Labour market, wages and prices.....	3-26



## STATEMENT 3: ECONOMIC OUTLOOK

The Australian economy is expected to grow strongly in 2007-08, after being affected by severe drought in 2006-07. The global economy continues to be strong. The high level of business investment is expanding the capacity of the economy, and is expected to translate into accelerating export growth. Strong income growth is anticipated to support solid household consumption growth and a modest pick-up in dwelling investment. Employment growth is expected to ease in 2007-08, following a period of strength, and inflation is forecast to moderate.

### OVERVIEW

The **Australian economy** strengthened towards the end of 2006, despite the severe impact of the drought. This strength is expected to be sustained over the forecast period. Real GDP is expected to grow by 3¾ per cent in 2007-08, up from 2½ per cent in 2006-07. The forecast for 2007-08 reflects an assumed return to average seasonal conditions and a partial recovery from the drought, which is expected to add ½ of a percentage point to GDP growth. Strong growth in 2007-08 also reflects solid growth in consumption and business investment, a modest increase in dwelling investment and accelerating export growth.

The Australian economy is adjusting well to the increasing global demand for mineral and energy resources, with a substantial reallocation of labour and capital currently underway. While mining production and export volumes have not yet grown significantly, reflecting the long lead times from mining investment to production, solid growth is expected from 2007-08. Over the past five years, the mining sector has invested around \$55 billion to expand production.

Prospects for the household sector have improved. While consumption grew modestly in 2005-06 and dwelling investment experienced a mild decline, growth is expected to strengthen in 2006-07 and 2007-08. This strengthening reflects the continued stimulus to household income and wealth from high commodity prices. Recent growth in household income reflects strong employment growth, which has accompanied a fall in the unemployment rate to 30-year lows and a rise in the participation rate to near-record highs. Employment growth is expected to moderate in 2007-08, and the unemployment rate is forecast to remain low.

Overall wage pressures are anticipated to remain contained, while inflation is expected to moderate. The forecast moderation in inflation reflects a stabilising of automotive fuel prices, the recent unwinding of large rises in fruit prices experienced during 2006 and an easing in underlying inflationary pressures.

The **world economy** is expected to continue to expand at a strong rate, with world GDP forecast to increase by 5 per cent in 2007 and 2008. The positive outlook reflects

### *Statement 3: Economic Outlook*

expectations for strong growth in China, India, Japan and the euro area. Growth in the United States is expected to ease in 2007, before strengthening in 2008.

In the domestic economy, **household consumption** is expected to grow by 3½ per cent in 2006-07 and 2007-08. Strong increases in household income and solid growth in wealth are expected to support consumption and allow households to further consolidate their balance sheets. Recent strong increases in household income reflect strong employment growth and solid wage growth.

**Dwelling investment** is expected to recover modestly after its recent mild fall, and grow by 2½ per cent in 2006-07 and 2007-08. Investment by owner-occupiers is expected to lead the recovery, with recent interest rate increases and low rental yields weighing more heavily on investors. An increase in rental yields is expected to encourage more investor activity during 2008.

The level of **business investment** is expected to remain high, although growth is likely to moderate from its recent strong rates. New business investment is forecast to increase by 7½ per cent in 2007-08, underpinned by continuing strength in the mining and construction sectors. The investment environment remains favourable, although there is some evidence of capacity constraints in the construction sector with cost pressures and delays in obtaining labour and materials.

**Public final demand** is expected to grow by 3¾ per cent in 2007-08, with strong growth in public investment and some moderation in public consumption growth.

**Net exports** are expected to subtract ½ of a percentage point from GDP growth in 2007-08. Significant growth in non-rural commodity exports is forecast in 2007-08, while growth in other exports is expected to be modest. Rural exports are forecast to make some recovery following the drought, while elaborately transformed manufactures and services exports are expected to be constrained by the relatively high exchange rate and continuing robust international competition. Import growth is expected to remain solid over the forecast period, consistent with the higher exchange rate and the outlook for domestic demand. Recent strong import growth is the counterpart of strong growth in investment and incomes in the economy.

**The terms of trade** reached their highest level in over 50 years in the December quarter 2006. They are expected to fall by 1½ per cent in 2007-08, reflecting anticipated falls in rural and non-rural commodity prices as global supply increases in these markets.

The **current account deficit** (CAD) is forecast to widen to 6 per cent of GDP in 2007-08, with growth in import volumes forecast to outpace growth in export volumes, and export prices expected to fall. The anticipated widening in the trade deficit is expected to be partially offset by a narrowing in the net income deficit reflecting slower growth in corporate profits. From a saving and investment perspective, the expected widening in the CAD reflects expected higher investment and relatively unchanged national saving as a share of GDP.



**Employment growth** is expected to ease to 1½ per cent in 2007-08, consistent with around-trend non-farm GDP growth and a modest rise in real labour costs. The participation rate is expected to rise to 65 per cent, while the unemployment rate is expected to increase modestly to 5 per cent in 2007-08. The forecast rise in the participation and unemployment rates partly reflects the new participation requirements for Disability Support Pension and Parenting Payment recipients, which are expected to result in more people entering the labour force.

**Wage growth** is expected to remain solid at 4¼ per cent in 2007-08. While there have been localised wage pressures in those sectors most affected by mining and construction activity, overall wage pressures remain contained.

**Inflation** is forecast to ease from 2¾ per cent in 2006-07 to 2½ per cent in 2007-08. Inflation is expected to temporarily fall below 2 per cent through the year to the June quarter 2007 as automotive fuel prices stabilise and fruit prices remain below the highs experienced in 2006. Underlying inflationary pressures are expected to moderate as nominal unit labour costs ease, reflecting improved productivity.

**The risks** confronting the Australian economy have become more evenly balanced in recent months. The risks are around the ongoing effects of the drought, the adjustment to the commodity price stimulus and the pace of household balance sheet consolidation.

The drought is expected to have a significant adverse impact on the economy in 2006-07, with 2006 being the driest year on record across parts of southern Australia. The forecast strength in the economy in 2007-08 partly relies on the normal budget assumption of average seasonal conditions. The timing and distribution of rainfall has an important impact on the prospects for rural production and exports, and the economy more broadly.

There is a downside risk to the outlook if rainfall for the farm sector remains inadequate. While the Bureau of Meteorology has announced the end of the 2006-07 El Niño conditions and stated that there appears to be little chance of a return to these conditions in 2007, the ending of El Niño does not necessarily imply drought-breaking rains. Further, the current low water storage levels will make it difficult for some parts of the farm sector to fully recover from drought. For example, there is a risk that farmers in the Murray-Darling Basin will have no water allocations in 2007-08, which would lead to a large fall in production in this region.

A long period of economic growth has absorbed much of the economy's spare capacity. In particular, the economy is as close to full employment as it has been for over 30 years. There is evidence of capacity constraints in the construction sector, with some cost pressures and delays in obtaining labour and materials to complete projects. There is a risk that these factors will constrain output growth and place greater-than-anticipated upward pressure on prices and wages. Alternatively, productivity may be stronger than anticipated once the adjustment of the economy to

*Statement 3: Economic Outlook*

the reallocation of labour and capital is completed, leading to stronger growth without additional price pressures.

While the risks around consumption and dwelling investment have become more balanced, there remains uncertainty about the pace of household balance sheet consolidation. While household balance sheets are sound in aggregate, concerns remain about the vulnerability of a small proportion of highly-g geared households to unexpected changes in interest rates and incomes.

The outlook for the world economy remains positive, although a number of risks remain. These risks include a sharper-than-expected slowing in the United States, increased inflationary pressures, a substantial increase in oil prices, a greater-than-expected pick-up in financial market volatility, and a disorderly unwinding of global imbalances. While the current housing-led slowing in United States growth is expected to be mild, should the weakness become more broadly based this could have adverse implications for economies elsewhere.

**Table 1: Domestic economy forecasts<sup>(a)</sup>**

	Outcomes(b)	Estimates	Forecasts	
	2005-06 year average	2006-07 year average	2007-08 year average	Four quarters to June 2008
<b>Panel A - Demand and output(c)</b>				
Household consumption	2.6	3 1/2	3 1/2	3 1/2
Private investment				
Dwellings	-3.9	2 1/2	2 1/2	4
Total business investment(d)	16.2	4	7 1/2	5
Non-dwelling construction(d)	21.6	12	7	- 1/2
Machinery and equipment(d)	14.5	-1 1/2	6 1/2	9
Private final demand(d)	4.4	3 1/2	4 1/4	4
Public final demand(d)	4.3	4	3 3/4	4 1/2
Total final demand	4.4	3 1/2	4	4
Change in inventories(e)				
Private non-farm	-0.5	1/4	0	- 1/4
Farm and public authorities(f)	0.2	- 1/4	1/4	1/4
Gross national expenditure	4.1	3 1/2	4 1/4	4 1/4
Exports of goods and services	2.2	3	5	8 1/2
Imports of goods and services	7.2	8 1/2	6 1/2	8
Net exports(e)	-1.1	-1 1/4	- 1/2	- 1/4
Gross domestic product	2.9	2 1/2	3 3/4	4 1/4
Non-farm product	2.9	3	3 1/2	3 1/2
Farm product	4.6	-20	18	40
<b>Panel B - Other selected economic measures</b>				
External accounts				
Terms of trade	10.9	6	-1 1/2	-2 3/4
Current account balance				
\$billion	-53.4	-58 1/4	-65 3/4	
Percentage of GDP	-5.5	-5 3/4	-6	
Labour market				
Employment (labour force survey basis)	2.2	2 1/2	1 1/2	1 1/2
Unemployment rate (per cent)(g)	5.1	4 3/4	5	5 1/4
Participation rate (per cent)(g)	64.5	64 3/4	65	65
Prices and wages				
Consumer Price Index	3.2	2 3/4	2 1/2	2 3/4
Gross non-farm product deflator	4.9	4 3/4	2 1/2	2 1/2
Wage Price Index	4.1	4 1/4	4 1/4	4

(a) Percentage change on preceding year unless otherwise indicated.

(b) Calculated using original data.

(c) Chain volume measures.

(d) Excluding second-hand asset sales from the public sector to the private sector and including the impact of the privatisation of Telstra.

(e) Percentage point contribution to growth in GDP.

(f) For presentational purposes, inventories held by privatised marketing authorities are included with the inventories of the farm sector and public marketing authorities.

(g) The estimate in the final column is the forecast rate in the June quarter 2008.

Source: Australian Bureau of Statistics (ABS) cat. no. 5206.0, 5302.0, 6202.0, 6345.0, 6401.0, unpublished ABS data and Treasury.

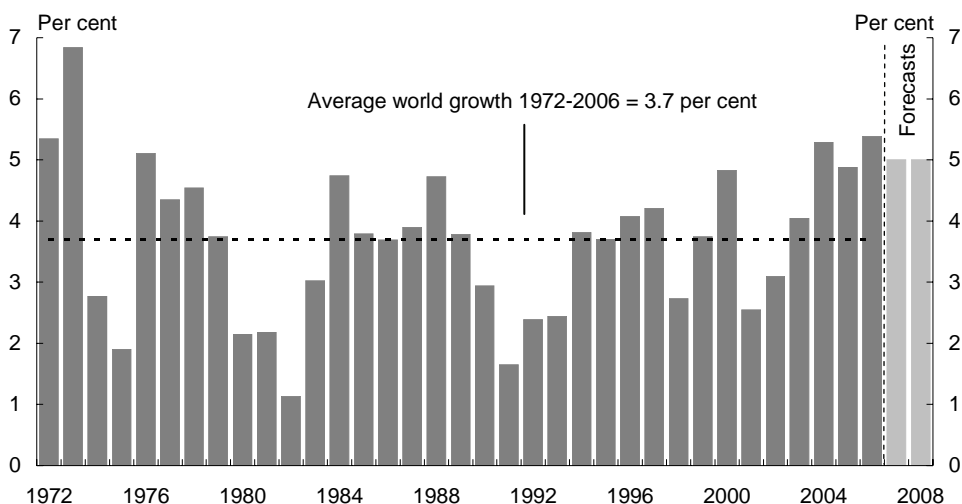
## THE OUTLOOK FOR THE INTERNATIONAL ECONOMY

The world economy grew by 5.4 per cent in 2006, the fastest growth rate recorded in over 30 years, and slightly faster than the 5¼ per cent expected in the *Mid-Year Economic and Fiscal Outlook 2006-07*. While the United States economy slowed over the second half of 2006, Japan, India, China, and the euro area grew more strongly than expected.

The strong performance of the world economy occurred despite increases in official interest rates and high oil prices throughout much of the year. World growth continued to be underpinned by favourable financial market conditions and strong corporate balance sheets.

The world economy is expected to continue to expand strongly, and grow by 5 per cent in both 2007 and 2008 (Chart 1). Following growth of 4.8 per cent in 2006, Australia's major trading partners are expected to grow by 4½ per cent in 2007 and 2008 (Table 2).

Chart 1: World GDP growth<sup>(a)</sup>



(a) World GDP growth rates are calculated using GDP weights based on purchasing power parity. Source: International Monetary Fund (IMF) and Treasury.

The **United States** is forecast to grow by 2¼ per cent in 2007, due to the lagged effects of tighter monetary policy and the downturn in the housing market. In 2008, a gradual recovery in the housing sector is expected to support a return to growth of around 3 per cent.

The housing downturn is likely to weigh on consumption growth over 2007. However, it remains unlikely that the housing market will cause a significant slowdown in other parts of the economy, with the momentum in employment and wage growth helping to offset the impact of the slowing housing market on consumption. Business

investment is expected to remain firm over 2007, reflecting strong corporate profitability and high capacity utilisation rates.

While core inflation remains slightly elevated, it is expected to continue to moderate as a result of the slowdown in economic growth. Reflecting this, financial markets have priced in the possibility of a cut in official rates in the second half of 2007.

**Table 2: International GDP growth forecasts<sup>(a)</sup>**

	Actual	Estimate	Forecasts	
	2005	2006	2007	2008
United States	3.2	3.3	2 1/4	3
Euro area(b)	1.5	2.8	2 1/2	2 1/4
Japan	1.9	2.2	2	2
China(c)	10.4	10.7	10 1/2	10 1/4
India(c)	8.7	9.1	8 1/4	7 3/4
Other East Asia(d)	5.0	5.6	5	5
Major trading partners	4.4	4.8	4 1/2	4 1/2
Total OECD	2.6	3.2	2 1/2	2 3/4
World	4.9	5.4	5	5

(a) World, OECD and euro area growth rates are calculated using GDP weights based on purchasing power parity. Calculations for major trading partners and other East Asia use export trade weights.

(b) Euro area numbers are working-day adjusted.

(c) Production-based measures of GDP.

(d) Other East Asia comprises the newly industrialised economies (NIEs), which constitutes Hong Kong, Korea, Singapore and Taiwan, and the Association of Southeast Asian Nations group of four (ASEAN-4), which constitutes Indonesia, Malaysia, the Philippines and Thailand.

Source: National statistical publications, IMF and Treasury.

**Japan's** economic expansion continued in 2006, with GDP growing by 2.2 per cent. Growth is expected to moderate slightly to 2 per cent in 2007, with a gradual pick-up in private consumption growth partially offsetting a moderation in the pace of business investment and export growth. Consumer spending is expected to be supported by tighter labour market conditions and improved wage growth.

While core inflation was positive in through-the-year terms in the second half of 2006, uncertainty remains over whether Japan has fully emerged from its prolonged period of deflation. In February 2007, the Bank of Japan raised the target policy rate by 25 basis points to 0.5 per cent, but is expected to adopt a cautious approach to further tightening, with monetary conditions likely to remain accommodative for some time.

In 2006, **China** recorded its fourth straight year of double-digit growth, with GDP expanding by 10.7 per cent. Growth is expected to remain strong at 10½ per cent in 2007. Investment should remain the primary driver of growth, which is also likely to be supported by strengthening private consumption and a solid, although lessening, contribution from net exports.

Despite the introduction of monetary and administrative measures to moderate investment growth, investment is expected to remain relatively high. Investment growth will be underpinned by strong fundamentals, including: high rates of national

### *Statement 3: Economic Outlook*

saving; urbanisation, which is generating strong demand for new infrastructure; the continued availability of a large pool of low cost labour for firms to draw upon; and strong profit growth.

Growth in the **rest of East Asia** accelerated in 2006, with GDP expanding by 5.6 per cent, supported by strong growth in exports and consumption. Growth is forecast to ease to 5 per cent in 2007, in part reflecting moderating external demand, and economic prospects across the region are expected to diverge. In particular, growth in the NIEs is expected to moderate, reflecting softer private consumption, while the ASEAN-4 economies are likely to continue growing strongly due to strengthening domestic demand.

The **Indian** economy continued to grow strongly, with GDP expanding by 9.1 per cent in 2006, supported by strong domestic demand (Box 1). Concerns around rising inflation and strong credit growth, however, have led Indian authorities to tighten monetary conditions through a combination of higher interest rates and increased cash reserve ratios for financial institutions. As a result, India's growth rate is expected to moderate slightly to 8¼ per cent in 2007.

The **euro area** grew by 2.8 per cent in 2006, its highest rate of expansion since 2000. The strong result was underpinned by increased investment spending and robust export growth. An improving labour market supported consumer spending.

Growth is expected to remain strong but moderate to 2½ per cent in 2007, largely due to the effects of monetary and fiscal tightening and a lower contribution from net exports. Inflation remains relatively benign, although the European Central Bank has noted that the risks remain on the upside in the medium term.

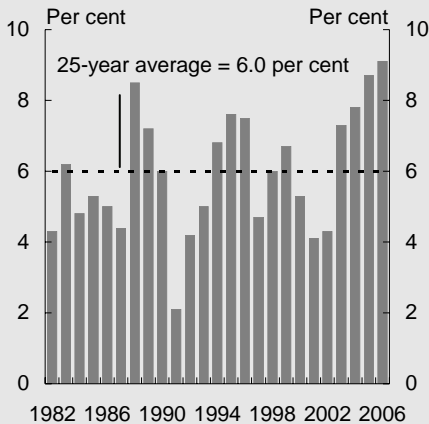
Despite the positive global economic outlook, a number of **risks** remain. The main risks are: a sharper-than-expected slowing in the United States; heightened inflationary pressures; a substantial increase in oil prices; a re-appraisal of financial market risk by investors; and a disorderly unwinding of global current account imbalances.

A worse-than-expected slowdown in the United States housing sector remains a key risk to the United States economy and the near-term world outlook. To date, the slowing housing market has had limited impact on the wider economy. Moreover, the recent difficulties in the sub-prime mortgage market do not appear to have flowed through to the prime mortgage segment or triggered broader credit problems. Nevertheless, if the housing downturn becomes more severe than currently envisaged, this could flow more broadly through the economy.

### Box 1: India's economic emergence

India has emerged as one of the world's fastest growing economies. Over the past quarter-century, India's economy has grown at an average annual rate of 6 per cent and, more recently, reached rates of around 9 per cent (Chart A).

**Chart A: India's growth performance**



Source: IMF, April 2007.

India has grown from being the world's ninth largest economy in 1980 (in purchasing power parity, or PPP, terms) to being the fourth largest today. Over recent years, India has contributed more to world economic growth than the euro area and Japan combined. Based on current trends, India could double its share of world GDP to around 12 per cent by 2030.

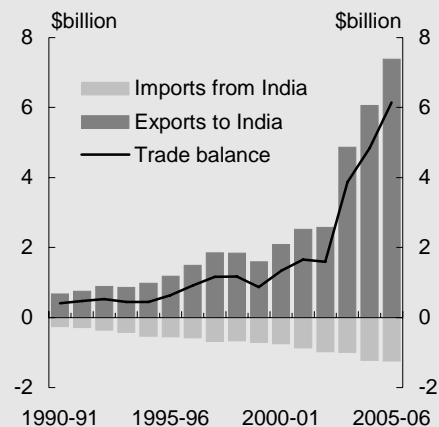
India nonetheless remains a relatively poor country, and around two-thirds of its labour force continues to be employed in the agricultural sector. In 2006, GDP per capita (in PPP terms) was an estimated US\$3,737; about one-tenth of the United States' level and less than half that of China.

India's growth has been largely driven by domestic demand, with the services sector playing a leading role. In contrast to many other countries in Asia, India's external sector remains relatively small, with the sum of exports and imports accounting for only 33 per cent of GDP in 2006 (compared with 67 per cent for China).

India has the potential to grow rapidly well into the future as it adopts newer technologies and its labour force shifts to more productive sectors. Favourable demographics will also continue to underpin growth. However, in order to achieve its potential, India will need to undertake further structural reforms.

India has been Australia's fastest growing export market over the past five years, and is now our seventh largest export destination. In 2005-06, bilateral trade in goods reached \$8.6 billion, of which \$7.4 billion were exports to India (Chart B). Trade in services amounted to \$1.7 billion and was dominated by Australian education exports to India.

**Chart B: Bilateral merchandise trade**



Source: ABS cat. no. 5368.0.

### *Statement 3: Economic Outlook*

As the world's economic expansion has strengthened and broadened, spare capacity has diminished in a number of developed economies prompting monetary authorities to tighten policy. This policy response, and the associated expected moderation in world growth, should help contain inflationary pressures. However, labour markets have continued to tighten in a number of economies, including the United States. Although nominal unit labour costs remain relatively well contained, wage growth could feed into inflationary pressures at some point over the forecast period. If this eventuates, it may prompt higher-than-expected interest rates and result in lower-than-expected global growth.

Following substantial falls in the second half of 2006 and early 2007, West Texas Intermediate oil prices have stabilised in recent months. Nevertheless, spare production and refining capacity remain low, and in such an environment there is a significant risk that adverse geo-political developments could lead to a substantial rise in oil prices. Any such increase would add to global inflationary pressures and lead to weaker growth.

The recent rebound in financial market volatility suggests that some repricing of financial risk is currently underway. Some of the factors that have underpinned favourable financial market conditions in recent years – such as an abundance of global liquidity and improvements in corporate balance sheets – cannot be expected to continue indefinitely. A greater-than-expected pick-up in financial market volatility, and associated increase in risk aversion, could have negative consequences for the global economic outlook.

One of the more striking features of financial markets over the past year has been the strong increase in leveraged buyouts. While corporate default rates remain low and overall corporate balance sheets remain healthy, higher debt levels could cause a more painful adjustment if interest rates were to increase unexpectedly, or if global economic growth were to slow markedly.

The risk of a disorderly unwinding of global current account imbalances appears to have abated somewhat, with growth across the world economy becoming more balanced. While an orderly unwinding remains most likely, the potential for a sudden, disorderly adjustment will remain while large imbalances persist.



## THE OUTLOOK FOR THE DOMESTIC ECONOMY

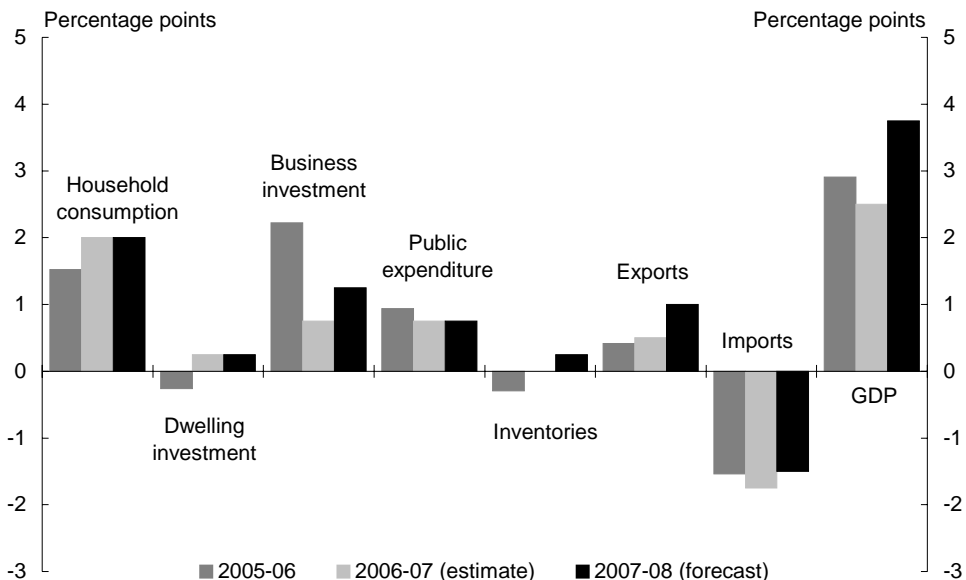
### Key assumptions

The domestic economy forecasts are underpinned by several technical assumptions. The exchange rate is assumed to remain around its recent level – a trade weighted index of around 67 and a United States dollar exchange rate of around 82 US cents. Domestic interest rates are assumed to remain unchanged at current levels. World oil prices (West Texas Intermediate) are assumed to move in line with market expectations, and remain above US\$65 per barrel throughout most of the forecast period. The farm sector forecasts are based on an assumption of average seasonal conditions in 2007-08, but take into account the current very low water storage levels.

### Demand, output and income

Real GDP is forecast to grow by  $3\frac{3}{4}$  per cent in 2007-08, with the partial recovery from drought expected to add  $\frac{1}{2}$  of a percentage point to growth (Chart 2). Farm GDP is forecast to rebound by 18 per cent in 2007-08, following a fall of 20 per cent in 2006-07, on the assumption of a return to average seasonal conditions.<sup>1</sup> The non-farm economy is expected to grow by 3 per cent in 2006-07 and  $3\frac{1}{2}$  per cent in 2007-08.

**Chart 2: Contributions to GDP growth<sup>(a)</sup>**



(a) Adjusted for second-hand asset sales and includes the impact of the privatisation of Telstra.  
Source: ABS cat. no. 5206.0 and Treasury.

<sup>1</sup> The *Mid-Year Economic and Fiscal Outlook 2006-07* contains a detailed discussion of the impact of the drought on the economy.

### Statement 3: Economic Outlook

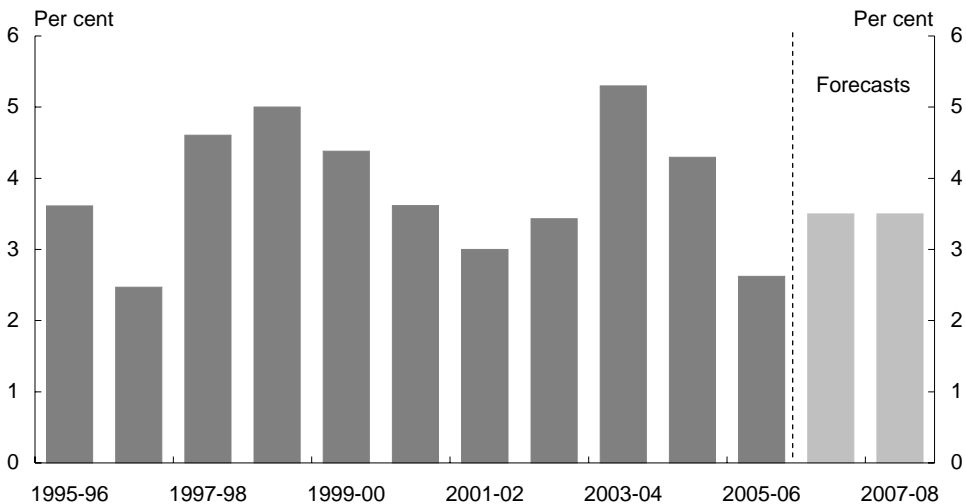
The Australian economy continues to benefit from strong world demand, with labour and capital continuing to shift towards the mining and construction sectors in response to the increase in commodity prices. Business investment growth is anticipated to moderate, but the level of investment is expected to remain high, supported by a record amount of planned engineering construction. Strong investment growth over recent years is expected to translate into accelerating export growth. The shift in resources within the economy is expected to continue to result in State and industry divergences (Box 2).

Growth in gross national income – which adjusts GDP for movements in the terms of trade and net primary income earned overseas – was 3.3 percentage points higher than GDP growth over the two years to the December quarter 2006. Ongoing growth in national income, household wealth and employment is expected to support solid household consumption growth and a modest pick-up in dwelling investment.

### Household consumption

Household consumption is expected to grow by 3½ per cent in 2006-07 and 2007-08, following growth of 2.6 per cent in 2005-06 (Chart 3). Strong employment growth, solid wage growth and tax cuts allowed consumers to maintain modest consumption growth in 2005-06 despite higher petrol prices, increased debt servicing costs and an adjustment to little or no house price growth in some markets.

**Chart 3: Growth in household consumption**



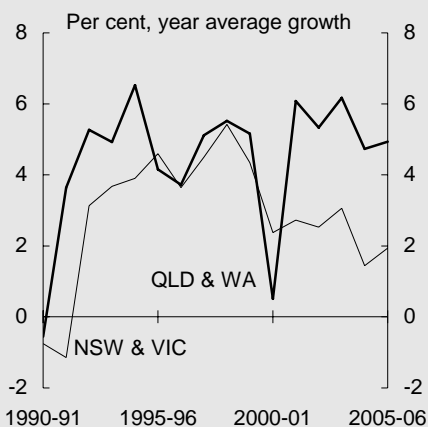
Source: ABS cat. no. 5206.0 and Treasury.

## Box 2: Divergences among States and industries

The drought, housing market and the increase in commodity prices have all had State and industry dimensions. The significant increase in commodity prices has seen a shift in labour and capital towards mining-related industries. This has resulted in some States growing more quickly than others in recent years.

The resource-rich States of Queensland and Western Australia grew at a weighted-average rate of 4.9 per cent in 2005-06, compared with 1.9 per cent for New South Wales and Victoria (Chart A).

**Chart A: Gross State Product**

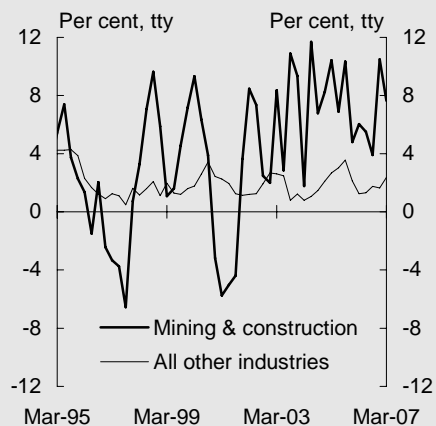


Source: ABS cat. no. 5220.0.

While business investment has been a major factor behind divergent State growth, household consumption growth has also diverged. For example, consumption growth in New South Wales was modest at 1.7 per cent in 2005-06, compared with 4.1 per cent in Western Australia.

The commodity price stimulus has been evident in the labour market (Chart B). Construction and mining employment grew by 7.6 per cent through the year to the March quarter 2007 (an increase of 77,900 jobs). Employment in mining and services to mining represents just 1.3 per cent of total employment. Outside construction and mining, employment also grew strongly by 2.4 per cent through the year to the March quarter 2007, resulting in an increase of 213,400 jobs.

**Chart B: Industry employment**



Note: Mid-month quarterly data.  
Source: ABS cat. no. 6291.0.55.003.

Outside mining, businesses have benefited from strong demand underpinned by high employment. Households have benefited from higher incomes, driven by both employment and wages, and higher wealth through the housing and share markets.

### *Statement 3: Economic Outlook*

In aggregate, the saving performance of households improved in 2005-06. This reflected a decision by households to continue to rebuild their balance sheets following a period in 2002-03 and 2003-04 when rapid consumption growth outpaced income growth. Abstracting from the impact of the sharp fall in farm incomes related to the drought, the saving performance of households continued to improve in the latter half of 2006.

Favourable conditions for household consumption are expected to continue over the forecast period. Household disposable income is expected to continue to grow solidly, supported by employment and wage growth. Consumer price inflation is expected to moderate from its recent highs, as automotive fuel prices stabilise, large rises in fruit prices unwind and underlying inflationary pressures ease.

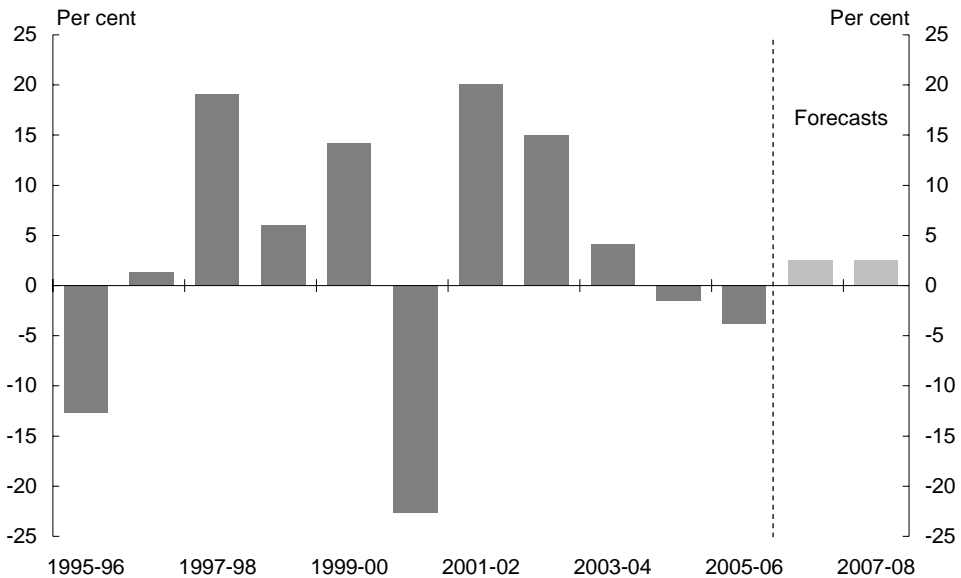
Consumption is also likely to be supported by recent increases in household wealth. Real household net wealth has increased strongly in recent years, rising by over 15 per cent over the past two years to June 2006. The growth in wealth has come from both dwelling and non-dwelling wealth, although non-dwelling wealth has increased at almost three times the rate of dwelling wealth over the past two years. In contrast, between June 2000 and June 2004 dwelling wealth grew at more than twice the rate of non-dwelling wealth. Consumption in Australia, and elsewhere, appears to be more responsive to changes in dwelling wealth than changes in non-dwelling wealth, suggesting that recent wealth increases will support consumption growth, but not by as much as when house prices were rising rapidly.

The risks around the consumption outlook have become more balanced in recent months. In aggregate, the housing market and consumption expenditure have adjusted smoothly to higher interest rates and higher petrol prices. In addition, household balance sheets are generally sound. However, concerns remain about the vulnerability of a small proportion of highly-g geared households to unexpected changes in interest rates and incomes.

## Dwelling investment

Dwelling investment fell slightly in both 2004-05 and 2005-06, after growing at an average annual rate of 12.9 per cent over the preceding three years. Dwelling investment is forecast to grow by a modest 2½ per cent in 2006-07 and 2007-08 (Chart 4). Growth is expected to be led by alterations and additions, with purchases of new dwellings picking up towards the end of the forecast period. Recent interest rate rises and low rental yields are expected to weigh on investors in the near term.

**Chart 4: Growth in dwelling investment**



Source: ABS cat. no. 5206.0 and Treasury.

Investment in alterations and additions is forecast to grow steadily, and to increase as a share of overall dwelling investment. This process is more advanced in New South Wales, reflecting a combination of factors. These include the limited availability of land in some locations and, in more recent years, the increased transaction costs involved with buying and selling a house. This trend has been evident in recent data, with alterations and additions having grown by 4.1 per cent Australia-wide over the six months to the December quarter 2006.

The near-term indicators of new housing construction activity remain subdued, in part reflecting recent increases in interest rates. Nevertheless, housing demand remains solid. Sustained growth in household incomes and employment, combined with increased immigration, is expected to support new dwelling investment growth in 2007-08.

Investor activity in the housing market has been discouraged in recent years by increases in the cost of borrowing, low rental yields, low growth in house prices and strong returns on alternative investments, such as shares. However, current low

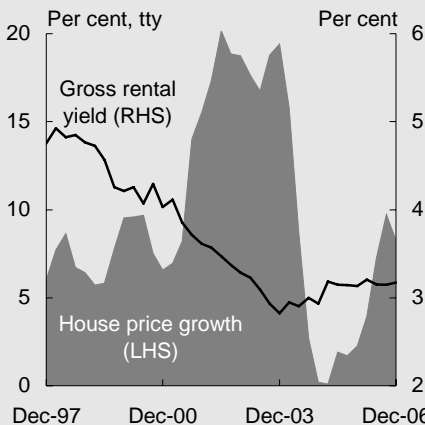
vacancy rates and ongoing solid demand for housing suggest that rental yields are likely to rise, largely through increases in rents (Box 3). The timing and effect of any rental yield rise is uncertain, and if yields were to rise more quickly than anticipated there could be a stronger-than-forecast increase in dwelling investment growth.

**Box 3: Rental property and investment**

Investor activity in the housing market has been weak in recent years. Loans to investors fell sharply in late 2003 and have remained low. This reflects low gross rental yields and the reduced potential for capital gain.

Between 2001 and 2003 house prices rose much faster than rents, resulting in a sharp decline in gross rental yields (Chart A). In more recent years, low house price growth has led to weak capital gains. All else equal, a lower rental yield and less potential capital gain means that property has become less attractive relative to other assets.

**Chart A: Gross rental yield and nominal house price growth**

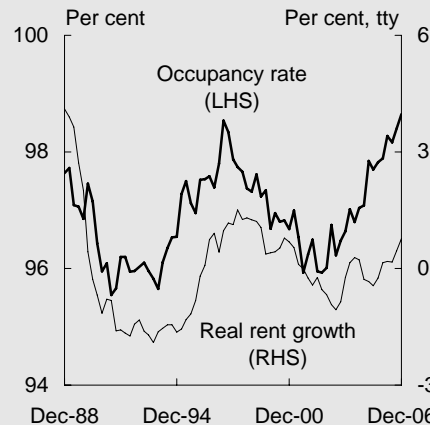


Source: ABS cat. no. 6416.0, Real Estate Institute of Australia and Treasury.

Reduced investor activity, combined with ongoing solid housing demand, has resulted in rental vacancy rates falling to unusually low levels across Australia’s capital cities.

Historically, low vacancy rates (or high occupancy rates) have led to a pick up in real rent growth (Chart B).

**Chart B: Occupancy rate and real rent growth**



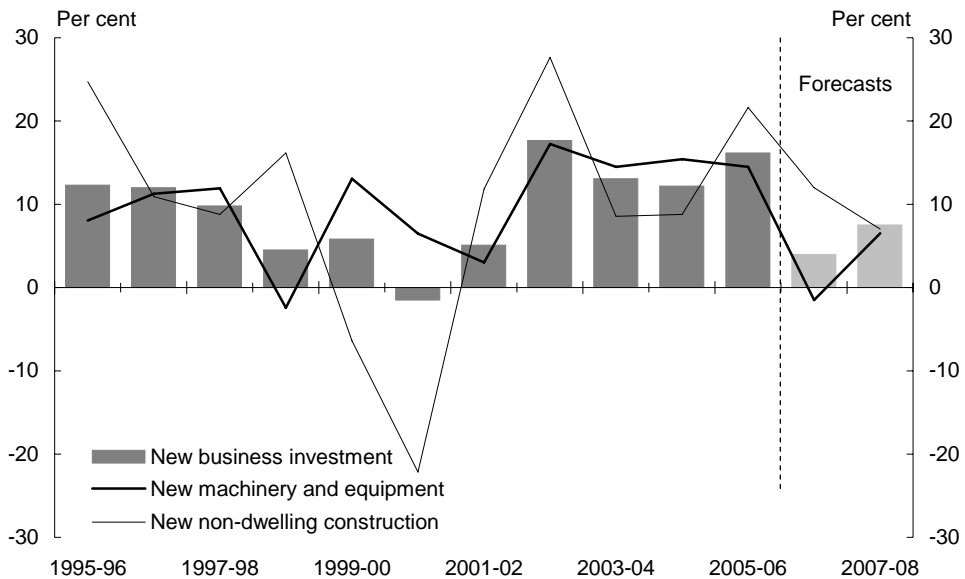
Source: Real Estate Institute of Australia and Treasury.

Given the solid demand for housing, rents are expected to continue to rise, leading to an increase in rental yields.

## Business investment

After recording double-digit rates over each of the past four years, new business investment growth is expected to moderate over the forecast period, to be 4 per cent in 2006-07 and 7½ per cent in 2007-08 (Chart 5). Part of the forecast growth reflects Telstra's reclassification as a private non-financial corporation. The reclassification is expected to reduce public final demand and increase new business investment effective from the March quarter 2007.

**Chart 5: Growth in new business investment**



Source: ABS cat. no. 5206.0 and Treasury.

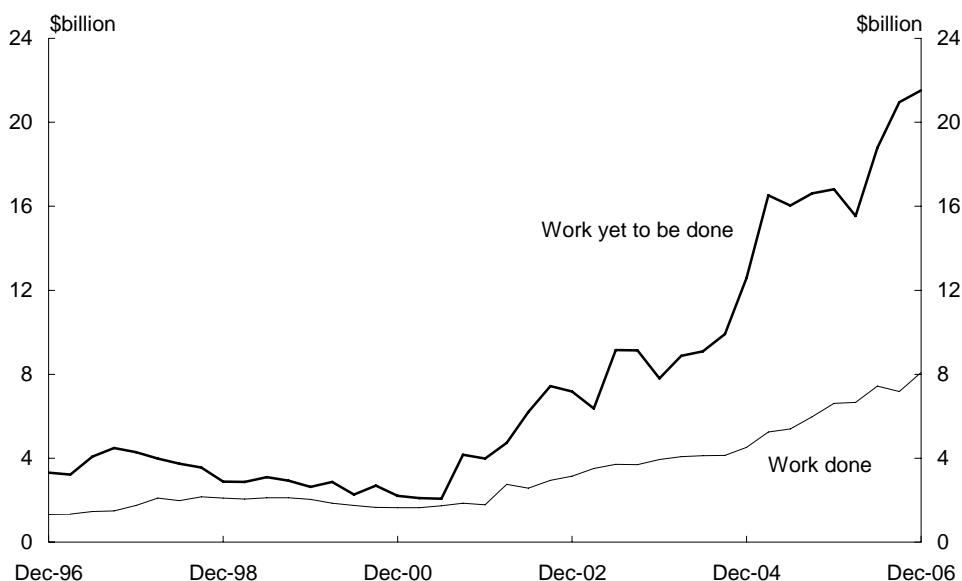
The business investment environment remains favourable, with high corporate profits, high rates of capacity utilisation, a relatively low cost of capital and continuing strong global demand for mining commodities. While the increase in commodity prices has boosted mining investment, it has also had a positive impact on investment in other sectors, such as manufacturing and property and business services. Over the past four years, the mining industry has accounted for around 20 percentage points of the 65 per cent growth in nominal investment. In addition, the share of non-dwelling construction undertaken by the mining industry has doubled from around 10 to 20 per cent since the beginning of this decade. However, continued solid growth in non-dwelling construction investment is at some risk from capacity constraints in key labour and capital markets.

### Statement 3: Economic Outlook

The expansion in new machinery and equipment investment is expected to pause in 2006-07, with investment falling by 1½ per cent, before increasing by 6½ per cent in 2007-08. The Australian Bureau of Statistics' *Survey of Private New Capital Expenditure and Expected Expenditure* (ABS CAPEX survey) suggests widespread weakness in plant and equipment investment intentions in the period ahead. Agricultural machinery and equipment investment (not included in the ABS CAPEX survey) is also likely to fall in 2006-07, reflecting low farm production and profits. New machinery and equipment investment is expected to rebound in 2007-08, with business conditions anticipated to remain strong.

Total new non-dwelling construction investment is expected to grow by 12 per cent in 2006-07 and 7 per cent in 2007-08. New engineering construction investment growth is expected to increase sharply in 2006-07, before moderating slightly in 2007-08, supported by new projects and a record amount of work that has begun construction but is yet to be completed (Chart 6). New non-residential building investment growth is expected to moderate from recent strong rates. Commercial office, other business premises and retail construction are expected to experience the strongest growth.

**Chart 6: Nominal new engineering construction**



Source: ABS cat. no. 8762.0.

### Inventories

Inventories are not expected to contribute to or subtract from GDP growth in 2006-07, as a rise in business stocks offsets a run-down in grain stocks. With farm production forecast to partially recover in 2007-08, grain stocks are expected to rise, with inventories contributing ¼ of a percentage point to growth in 2007-08.



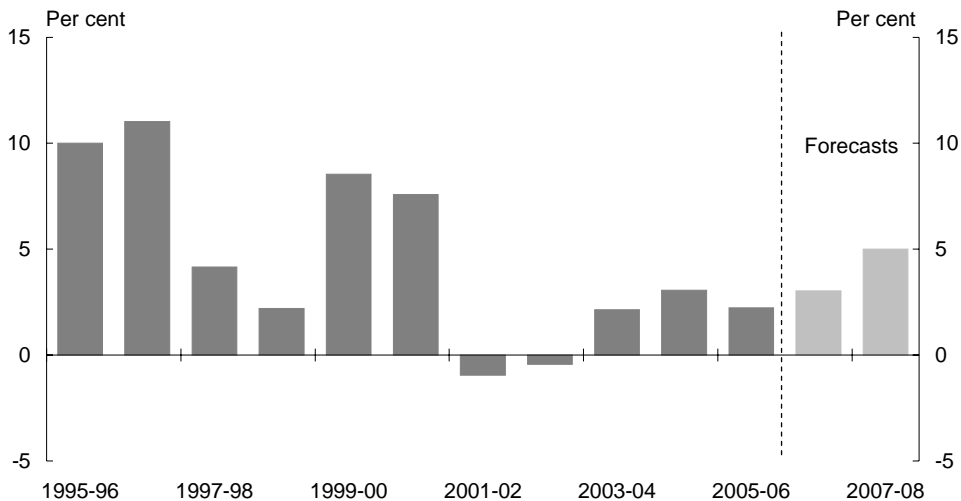
## Public final demand

Public final demand is expected to grow strongly in 2006-07 and 2007-08. State and local government investment is expected to increase sharply over the forecast period, reflecting a large number of infrastructure projects. General government consumption is expected to grow strongly in 2006-07, with growth moderating in 2007-08. As is the case for business investment, there is some risk to public investment from capacity constraints.

## Net exports

Net exports are expected to subtract  $\frac{1}{2}$  of a percentage point from GDP growth in 2007-08. Exports are forecast to grow by 3 per cent in 2006-07 and 5 per cent in 2007-08 (Chart 7). The modest export growth forecast in 2006-07 reflects the impact of the drought on rural exports and moderate growth in exports of elaborately transformed manufactures and services. Export growth is expected to increase in 2007-08, reflecting stronger non-rural commodity exports.

**Chart 7: Growth in exports**



Source: ABS cat. no. 5302.0 and Treasury.

Rural exports are expected to fall in 2006-07, reflecting the drought-driven 20 per cent fall in farm production. However, a run-down in grain stocks is expected to soften the impact of the fall in farm production on exports. As farm production will partially rebound in 2007-08 under the assumption of average seasonal conditions, some rural exports are also expected to rebound.

Growth in non-rural commodity exports is expected to accelerate in 2007-08, after solid growth in 2006-07. The acceleration in growth reflects the huge investment of around \$55 billion undertaken by the mining industry over the past five years.

### *Statement 3: Economic Outlook*

Nevertheless, uncertainty remains around the timing of the forecast acceleration in non-rural commodity export growth, with the lead times in mining investment having been surprisingly long. While export growth in some commodities – for example, liquefied natural gas and iron ore – has been strong over recent years, others have not performed as well. Coal exports have grown at an average annual rate of 4 per cent over the past four years, while exports of crude oil and condensate have fallen at an average annual rate of 14 per cent. However, there are signs that mining production (including oil production) may have started to turn around. Mining production grew by 9 per cent over the six months to the December quarter 2006 and mineral fuel exports increased by 23 per cent. In addition, while coal exports have been hampered by infrastructure constraints in some supply chains, there are significant expansion plans underway.

Elaborately transformed manufactures and services exports are expected to grow modestly over the forecast period, with the relatively high exchange rate and competitive pressures expected to constrain growth. Manufacturing exports have grown at an annual average rate of 2.7 per cent since 2000-01, well below the 20-year average of 10.5 per cent. There have been a number of factors contributing to the slow growth, including a turbulent world economy in the early part of the decade, the relatively high exchange rate, and increasing competition from industrialising economies such as China. These factors have also hindered services exports.

The increase in commodity prices is contributing to higher import growth, through a higher exchange rate and strong growth in domestic demand. Strong import growth is the counterpart of strong growth in investment and incomes in the economy. Since 2001-02, imports have grown at an average annual rate of 11.4 per cent, with capital imports growing at an average annual rate of around 20 per cent.

Imports are forecast to grow by 6½ per cent in 2007-08. Growth in capital imports is expected to moderate from its recent high rates in line with an expected moderation in business investment growth. Imports of consumption goods are expected to remain solid, in line with growth in household consumption.

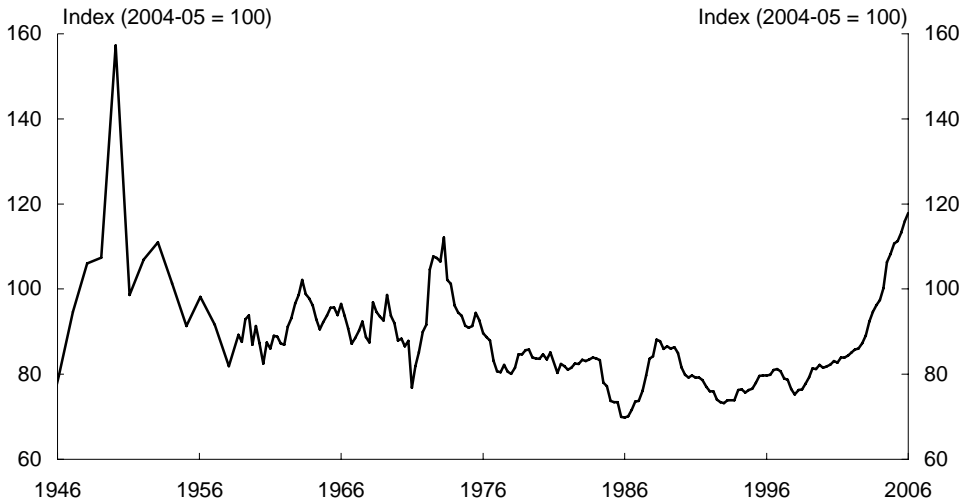
### **Terms of trade**

Following an increase of around 22 per cent over the past two years, the terms of trade are forecast to rise by 6 per cent in 2006-07, before falling by 1½ per cent in 2007-08 (Chart 8). The expected fall is largely driven by anticipated falls in non-rural commodity prices. Despite continued strong world growth, these prices are expected to fall as global mining supply comes on line. Rural prices are also expected to moderate, reflecting a partial recovery in Australian farm production in 2007-08.

The recent strength in the terms of trade has predominantly been driven by non-rural commodity export prices, which rose by around 67 per cent over the past two years. This aggregate increase was dominated by large rises in the prices of iron ore and coal, as well as mineral fuels, gold and metals. Non-rural commodity price rises also

contributed to import prices rising modestly. However, import prices are expected to moderate over the forecast period. Despite increasing cost pressures and higher world inflation, the prices of manufactured imports are expected to continue to fall.

**Chart 8: Terms of trade**



Note: Annual data prior to September 1959 and quarterly data thereafter.  
Source: ABS cat. no. 5302.0 and Reserve Bank of Australia.

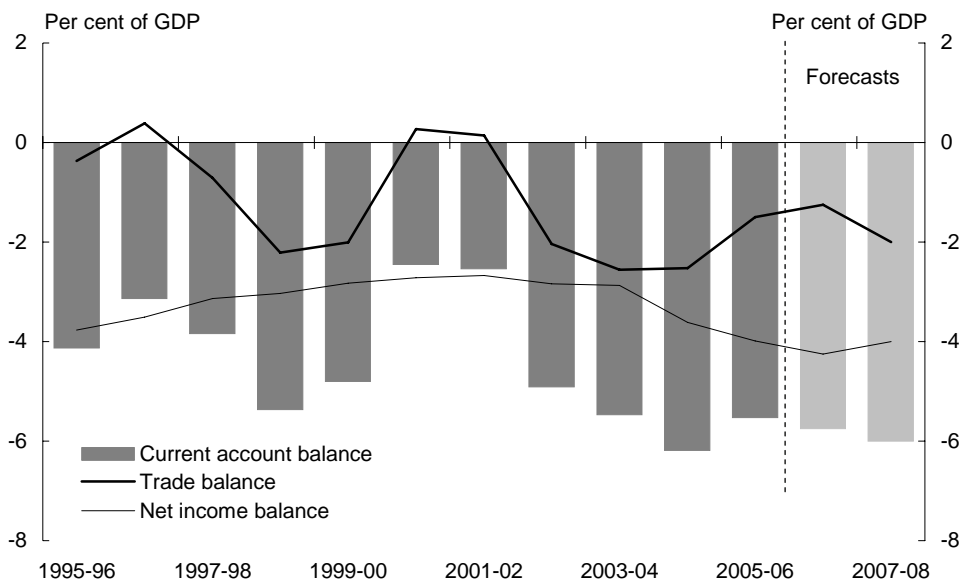
There is a risk that non-rural commodity prices will not fall as expected. While there have been recent falls in oil, alumina, some coal and some base metal prices, there are still signs of strength in other prices. Illustrating the mixed results, the prices of zinc and copper fell by 8.3 per cent and 19.0 per cent over the six months to March 2007, while the prices of nickel and lead increased by 48.4 per cent and 35.5 per cent. If world demand remains strong, and the global supply response does not match its pace, prices could be higher than expected. However, commodity prices are volatile, and there is the potential for a sharp correction if there were to be a reduction in demand or a faster-than-anticipated global supply response.

### Current account balance

The current account deficit (CAD) is expected to widen to 6 per cent of GDP in 2007-08 (Chart 9). It is anticipated that the trade deficit will widen, with import volumes outpacing export volumes and an expected fall in export prices. This is expected to be partially offset by a narrowing in the net income deficit (NID).

The past two years have seen a significant rise in the NID as a share of GDP following a long period when this ratio was declining. The earlier decline in part reflected a narrowing in the spread between the yields on foreign liabilities and those on foreign assets (Box 4). This differential has widened in the past two years as strong mining profits, coupled with a relatively high degree of foreign ownership in the mining sector, have underpinned a rapid increase in equity income accruing to the rest of the world. Reflecting an anticipated easing in commodity prices and corporate profits, equity income accruals are expected to moderate in 2007-08. This is expected to be partially offset by a rising stock of net foreign liabilities resulting from past current account deficits, and higher world interest rates.

**Chart 9: Current account balance**



Source: ABS cat. no. 5302.0 and Treasury.

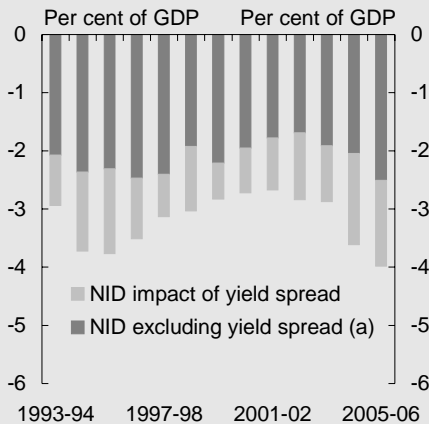
From a saving and investment perspective, the expected widening in the CAD reflects expected higher investment and relatively unchanged national saving as a share of GDP. The widening in the CAD since 2002-03 initially reflected a deterioration in the net lending position of households. In recent years, the net lending position of households has improved as they have begun to consolidate their balance sheets. However, this change has been partially offset by increased borrowing by the corporate sector in order to fund business investment.

#### Box 4: Net income and valuation gains on the net foreign liability position

Historically, the yield on foreign liabilities has been higher than the yield on foreign assets. The fall in the NID as a per cent of GDP in the late 1990s mainly reflected a narrowing in this differential (Chart A).

However, over the past two years, the NID as a per cent of GDP has risen significantly. Around half of this increase is due to a combination of growth in net foreign liabilities as a share of GDP and a general rise in yields on both assets and liabilities.

**Chart A: Net income deficit and the yield spread**



(a) Calculation assumes yields converge to the midpoint of the spread.

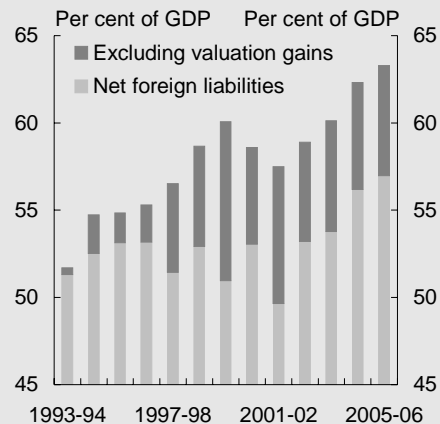
Source: ABS cat. no. 5302.0 and Treasury.

The other half is due to an increase in the spread between yields on foreign liabilities and foreign assets. The combination of strong mining profits and the relatively high degree of foreign ownership in the Australian mining sector has led to a rapid increase in the investment income received by foreigners. Profitability of Australian non-mining companies has also been relatively strong.

Interestingly, Australia's net foreign liabilities have not increased by as much as would have been suggested by the CAD alone. The CAD, through the NID, does not capture valuation gains arising from exchange rate and asset price changes. These valuation gains are volatile, but have generally favoured Australia.

Cumulative valuation gains have reduced net foreign liabilities by 6 per cent of GDP since 1993-94 (Chart B). This has offset over half of the increase in net foreign liabilities as a share of GDP that would otherwise have occurred.

**Chart B: Impact of valuation gains on net foreign liabilities**



Source: ABS cat. no. 5302.0 and Treasury.

These valuation gains have largely arisen from asset price gains, reflecting stronger growth in foreign asset prices compared with Australian asset prices. The Australian dollar's depreciation between 1996-97 and 2000-01 also provided exchange rate gains, but these were reversed with the subsequent appreciation.

## **Labour market, wages and prices**

### **Labour market**

Employment growth is expected to ease to 1½ per cent in 2007-08, consistent with around-trend non-farm GDP growth and a modest rise in real labour costs. The growth in employment is expected to be underpinned by higher-than-average population growth resulting from increased immigration.

The participation rate is expected to rise to 65 per cent in 2007-08, partly reflecting the Government's Welfare-to-Work reforms. This is expected to contribute to a modest increase in the unemployment rate to 5 per cent. The new participation requirements for Disability Support Pension and Parenting Payment recipients are likely to lead to more people entering the labour force, increasing the unemployment rate in the short term as new entrants to the labour market take time to find jobs.

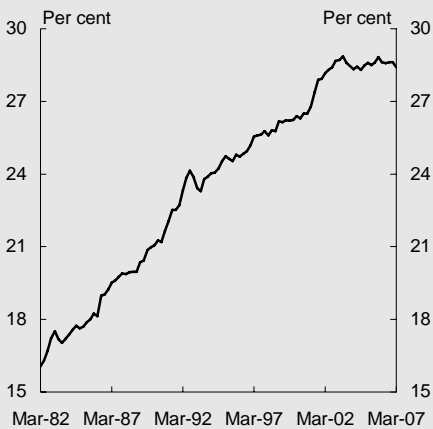
The recent strong rise in the demand for labour has been largely met by increased labour supply. The strong growth in employment has been reflected in a rise in the number of people entering the labour force, as well as a fall in the number of people who are unemployed. Around 27 per cent of the growth in employment between June 2004 and March 2007 reflected rising participation, with around 16 per cent associated with a fall in the number of people unemployed. In Queensland and Western Australia – the two States with the strongest mining industries – increased labour force participation is a reflection of the strong increase in demand for labour.

A near-record-high participation rate and an unemployment rate at 30-year lows suggest a tight labour market. Another illustration of the tight labour market is the increase in full-time jobs, which have accounted for the majority of jobs created in recent years (Box 5). Moreover, measures of labour utilisation, which adjust for the number of hours worked by part-time and full-time workers, are at near-record levels (since the monthly labour force survey began in February 1978). In fact, for those aged 25 to 54, this measure is at its highest level on record.

### Box 5: Part-time and full-time employment

Part-time jobs have accounted for around 30 per cent of jobs created in the past five years, compared with over 55 per cent of jobs created over the previous two decades. After rising consistently since the early 1980s, the part-time share of total employment has been steady for the past five years (Chart A).

**Chart A: Part-time share of total employment**



Source: ABS cat. no. 6202.0.

The shift away from growth in part-time employment towards full-time employment has occurred in most States. This shift has also occurred, to a varying extent, across age and gender cohorts. Further, it has occurred despite an increase in the share of older workers (55 and over) in total employment, where part-time jobs are more prevalent.

The shift towards full-time job growth is partly related to strong employment growth in the mining and construction industries. In February 2007, these industries accounted for around 11 per cent of total employment, up from around 8 per cent in 2001. Around one in eight jobs in these industries is part-time, compared with about one in four across all industries.

However, there has also been a shift towards full-time employment growth within industries that are more part-time intensive. For example, after rising since the 1980s, the part-time share of retail trade employment has been steady at around 47 per cent since 2001. This industry accounts for about a quarter of part-time workers.

Future changes in the part-time share of employment will depend on economic conditions, structural changes and demographic factors. Historically, economic upturns are accompanied by slower growth in part-time jobs compared with full-time jobs. As the share of older persons in the labour force increases, the part-time share of total employment could rise further, reflecting the transition to retirement. However, as noted earlier, a rising share of older persons in total employment has not seen an increase in the part-time share of employment in recent years.

## Wages

Wage growth is expected to moderate slightly in 2007-08, in line with an easing in employment growth. The Wage Price Index is forecast to grow by 4¼ per cent through the year to the June quarter 2007, before easing to 4 per cent through the year to the June quarter 2008. The pattern of through-the-year growth will be affected by the timing of the Australian Fair Pay Commission’s 2006 Federal Minimum Wage decision, which is likely to result in stronger wage growth in the March quarter 2007.

Despite strong employment growth and continuing falls in the unemployment rate in recent years, overall wage pressures have not increased considerably (Box 6). There have, however, been localised wage pressures in those sectors most directly affected by the mining and construction industries (Chart 10). Wage growth in the mining and construction sectors was 5.6 per cent through the year to the December quarter 2006, compared with growth of 3.8 per cent for all other industries. The strength in wages in these sectors is expected to continue, and there is a risk that this may lead to more widespread wage pressures with the tight labour market.

**Chart 10: Growth in the Wage Price Index**



Source: ABS cat. no. 6345.0 and Treasury.



### Box 6: Inflation and unemployment

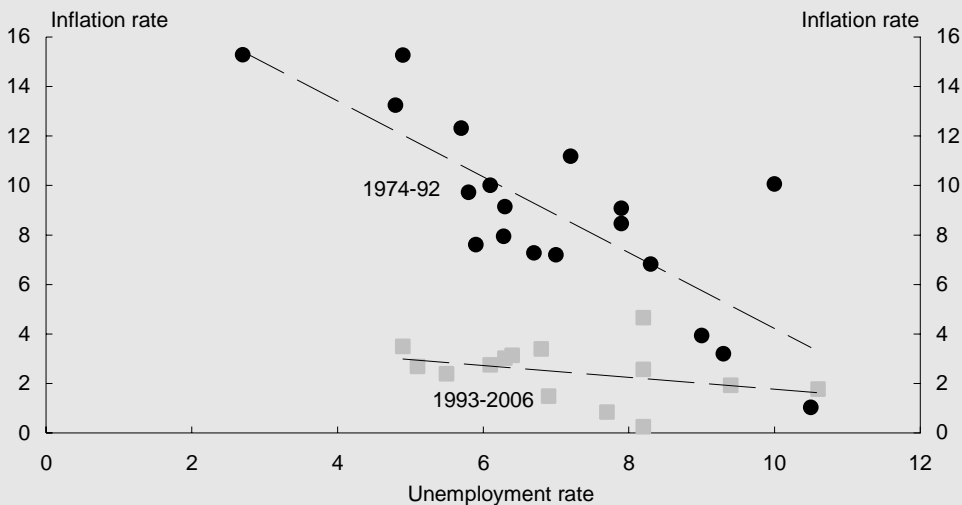
Over the past decade, inflation in Australia has been well-anchored, with annual inflation averaging 2½ per cent. At the same time, the unemployment rate has been falling steadily and the economy is now as close to full employment as it has been for over 30 years.

The relationship between inflation and the unemployment rate over the past 30 years can be interpreted as a series of shifting short-run Phillips curves, with downward shifts reflecting lower inflation expectations (Chart A).

The combination of low unemployment and low inflation has been sustained for some time, which suggests that the short-run trade-off between unemployment and inflation has diminished. This has been a consequence of credible macroeconomic policy frameworks, which have anchored inflation at low rates.

Moreover, the labour market is more flexible than it was in the past. As a result, relative wages among industries now provide a stronger signal for labour to move in response to demand without creating economy-wide wage pressures.

**Chart A: Phillips curves in Australia<sup>(a)</sup>**

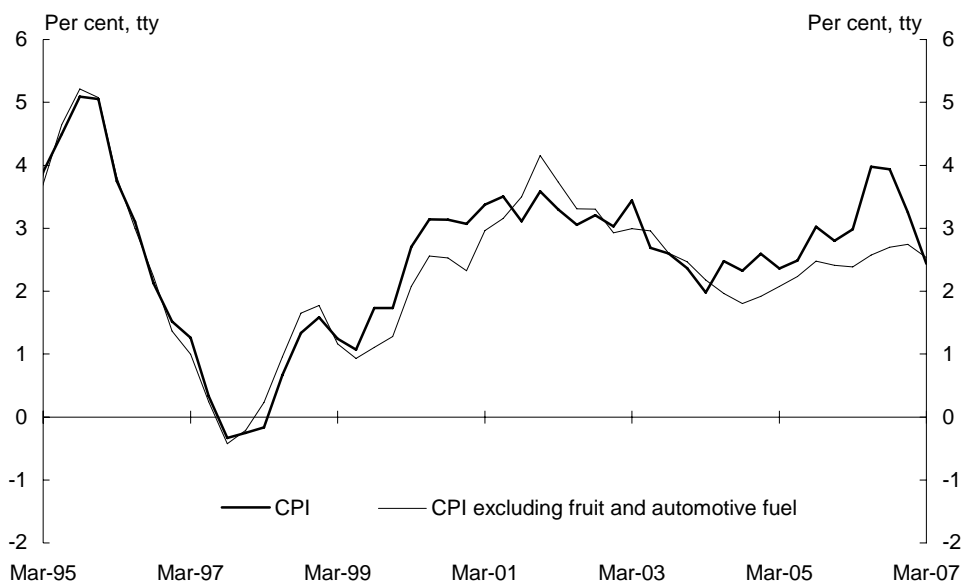


(a) Annual data; and inflation is adjusted for the effects of *The New Tax System*.  
Source: ABS cat. no. 6401.0, 6202.0 and Treasury.

## Prices

Consumer price inflation has been affected recently by significant movements in the prices of automotive fuel and fruit (Chart 11). These items subtracted 1¼ percentage points from Consumer Price Index (CPI) growth over the six months to the March quarter 2007, after contributing 1¼ percentage points in the preceding six months. As automotive fuel prices stabilise and fruit prices remain below the highs experienced in 2006, inflation is expected to temporarily fall below 2 per cent through the year to the June quarter 2007.

Chart 11: Inflation<sup>(a)</sup>



(a) Adjusted for the effects of *The New Tax System*.  
 Source: ABS cat. no. 6401.0 and Treasury.

In addition to these one-off factors, there have been some underlying inflationary pressures reflecting the indirect effects of higher oil prices and solid growth in nominal unit labour costs. After slowing at the beginning of the decade, growth in nominal unit labour costs picked up in 2004-05 and 2005-06 reflecting a slowdown in productivity and a modest pick-up in wages. Nominal unit labour costs are expected to ease in line with a strengthening in productivity. As a result, underlying inflationary pressures are expected to moderate.

The inflation rate is forecast to be 2¾ per cent through the year to the June quarter 2008. Behind the moderate outlook for inflation are divergent trends for the prices of different goods. The downward trend in the price of some tradeable items, such as clothing and footwear and computing equipment is expected to continue. However, as discussed in Box 3, house rental prices are expected to continue to increase. This, combined with a forecast modest increase in house purchase prices — which together account for around 13 per cent of the CPI basket — is expected to place

upward pressure on inflation. Low water allocations in the Murray-Darling Basin will also add to the upward pressure on inflation through higher fruit, vegetable and dairy prices, although alternative Australian and international supply sources are expected to reduce this impact. While upward price pressures are not anticipated to lead to significant increases in consumer price inflation, they remain a risk.



# STATEMENT 4: AUSTRALIA'S LABOUR FORCE UTILISATION

This statement examines Australia's labour force utilisation in international and historical context, and the role of recent Government policy in influencing labour market decisions. The statement also examines characteristics of casual employment and the relationship between flexible labour markets and employment security. Finally, a forward look is taken at the likely long-term trend in labour utilisation.

<b>Labour force utilisation in international and historical context</b> .....	<b>4-4</b>
Labour utilisation and productivity in international context .....	4-4
Decomposition of labour utilisation .....	4-7
<b>Factors affecting labour utilisation decisions</b> .....	<b>4-17</b>
Macroeconomic performance.....	4-17
The taxation and income support system .....	4-18
Family and individual circumstances.....	4-19
Labour market regulation .....	4-21
Education and training .....	4-23
Immigration.....	4-25
<b>Employment flexibility and security</b> .....	<b>4-26</b>
Characteristics of the casual employment market .....	4-26
Job security .....	4-28
<b>Policy priorities for maintaining full employment in the face of global change</b> .....	<b>4-29</b>
<b>Conclusion</b> .....	<b>4-33</b>
<b>References</b> .....	<b>4-34</b>



## STATEMENT 4: AUSTRALIA'S LABOUR FORCE UTILISATION

This statement examines the progress that Australia has made on labour force utilisation, and considers the impact of the future demographic challenge. Labour force utilisation is one of two key policy priorities identified in the *Intergenerational Report 2007*, released in April 2007, for addressing the inevitable slowing of economic growth arising from demographic change. The other key priority is productivity growth.

The ongoing rise in employment is one of Australia's important economic and social success stories. The participation rate reached an all-time high in September 2006, at just over 65 per cent. Coupled with this, unemployment is currently at a 30-year low.

This statement begins with a profile of Australia's path of economic growth, contrasting this with other OECD countries in order to provide international context for Australia's position on the spectrum of labour market arrangements and outcomes.

The statement then turns to Australian labour market performance in an historical context. The growth in employment, decline in unemployment and the change in the composition of the labour force over the past decade and a half are remarkable. These have been important contributors to Australia's impressive record of economic growth. The labour market outcomes have been brought about through a mixture of policy and non-policy factors: broad policies associated with macroeconomic stabilisation and creating the conditions for sustained growth; specific policies designed to provide incentives for greater participation in the labour force; and changing demographics, boosting the availability of people in working-age cohorts.

The statement then examines the growth of casual labour and scrutinises the perceived trade-off between flexible labour markets and job security. Finally, policy priorities for maintaining full employment in the face of global change are considered. While there remains further scope to improve labour market outcomes, progress becomes more difficult as Australia approaches global best practice. Moreover, at the limit, labour utilisation is bounded by the number of hours people want to work. As the Intergenerational Report projects, the proportion of the population made up of the working-age cohort is likely to dwindle primarily because of the retirement of the baby boomers.

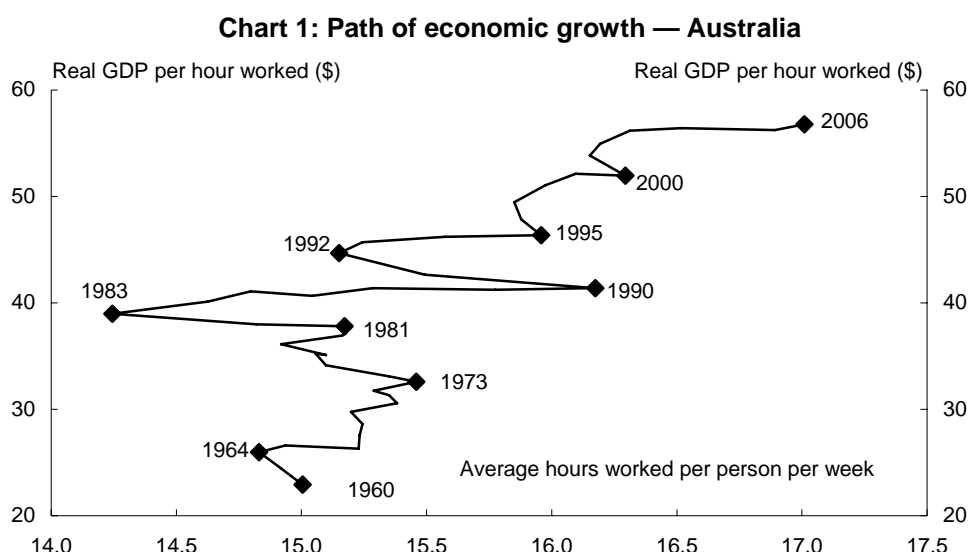
The challenge for policy is to obtain the best labour force outcomes as the age structure of the population changes, while at the same time improving the productivity performance.

## LABOUR FORCE UTILISATION IN INTERNATIONAL AND HISTORICAL CONTEXT

In this section, Australia's labour market performance is discussed in international and historical context. Trends in labour utilisation are examined by considering developments in participation rates, demographics, unemployment, hours worked and labour mobility.

### Labour utilisation and productivity in international context

GDP per capita is a standard measure of the performance of an economy over time and across countries. GDP per capita can be expressed as hours worked per capita multiplied by GDP per hour worked. The former is a measure of labour utilisation and the latter is the standard measure of labour productivity.



Source: Groningen Growth and Development Centre, Total Economy Database, January 2007.

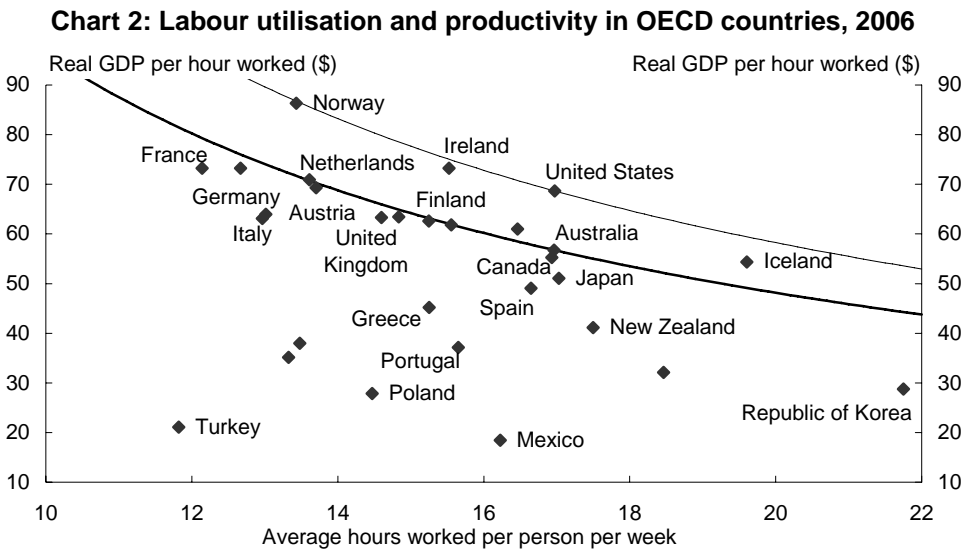
The horizontal axis in Chart 1 shows labour utilisation measured as weekly hours worked per capita. It depends on demography (that is, the age structure of the population), labour force participation, unemployment, and average hours worked. The vertical axis shows labour productivity measured as GDP per hour worked. Growth in GDP per capita over time is shown by the north-east trend in the chart.

In 1960, the average Australian worked 15 hours a week and an average hour of work generated \$22.90 of GDP, measured in 2005 dollars. Multiplying these two figures together, we find that, expressed in 2005 dollars, real GDP per capita was \$343.50 a week. In 2006, the average Australian worked 17.1 hours a week and an average hour of work generated \$56.77 of GDP. Hence, in 2006, real GDP per capita was (multiplying the two numbers together) \$970.77 a week.



Subsequent to the last recession, average annual growth in GDP per capita has been a little under 2.5 per cent. Economic growth has been achieved by growth in both labour utilisation and productivity. The large shifts to the right following 1983 and 1993 are a consequence of falling unemployment associated with recovery from recession.

Chart 2 plots the same relationship, but across countries rather than over time. The curved lines running through Australia and the US represent combinations of labour utilisation and productivity that correspond with the same level of GDP per capita. For instance, Netherlands has around the same GDP per capita as Australia but achieves this with lower labour utilisation and higher productivity. Alternatively, a country could have similar GDP per capita but with a combination of higher utilisation and lower productivity. Countries above the line running through Australia have a higher level of GDP per capita.



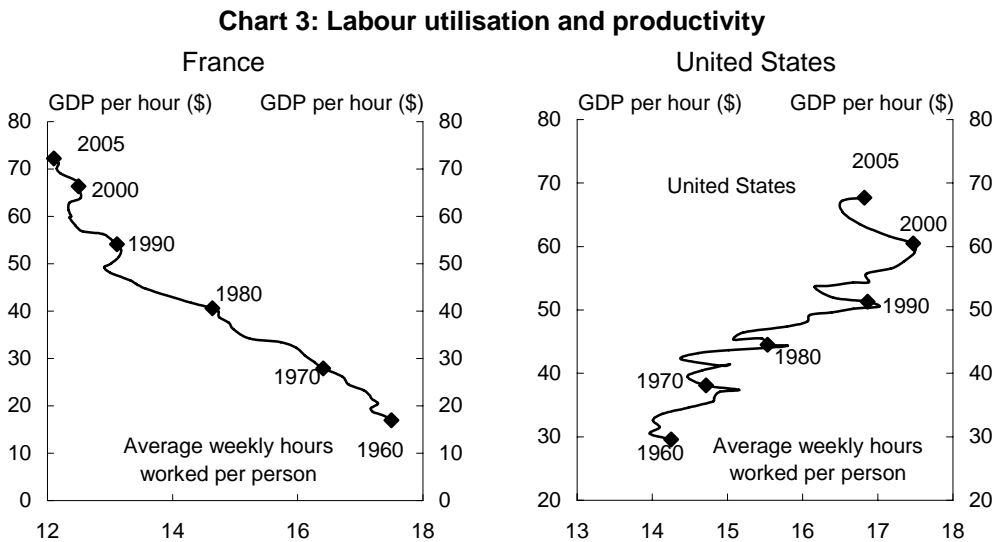
Source: Groningen Growth and Development Centre, Total Economy Database, January 2007.

Labour utilisation and productivity make different contributions to generating GDP per capita, as can be seen by comparing Australia, the US and France. Australia and the US have very similar labour utilisation. The key difference between the two is the level of labour productivity, which is around 20 per cent higher in the US than in Australia. In contrast with Australia, France has significantly lower labour utilisation with labour productivity roughly similar to the US, leading to lower overall GDP per capita. There are several factors contributing to lower labour utilization in France and other European countries. Blanchard (2004) argues that European countries have used the increase in productivity over time to increase leisure rather than income, but others argue that labour utilisation outcomes are associated more with labour market and social policy settings.

Statement 4: Australia's Labour Force Utilisation

Chart 3 shows that labour utilisation has been steadily declining in France since the 1960s. A succession of regulations since the 1980s together with demographic change have gradually reduced average weekly hours worked (OECD 2005). In 1998, the government mandated a reduction in the working week from 38 hours to 35 hours for large firms by 2000 and for smaller firms by 2002. Employment protection legislation in France has tended to inhibit not only the firing but also the hiring of workers.

In France, gains in real GDP per capita have been achieved by trend productivity growth more than off-setting the trend decline in labour utilisation, illustrated by a north-westerly progression in Chart 3. In contrast, in the United States, which is characterised by a considerably more flexible labour market, both productivity and labour utilisation have trended up over time, resulting in a north-easterly progression in Chart 3.



Source: Groningen Growth and Development Centre, Total Economy Database, January 2007.

Bourles and Cette (2006, 2005) find that some European countries have higher labour productivity because they have lower levels of employment and lower productivity workers are less likely to participate in the labour force. McGuckin and Van Ark (2005) find a negative relationship between labour utilisation and productivity, but only in the short run. This result suggests that new labour force entrants have lower productivity but catch up with the rest of the labour force after a period of skills development.

These comparisons highlight an important distinction between labour utilisation and labour productivity as drivers of income level. A given level of income can be reached by either higher labour utilisation or higher productivity (or a combination of both). However, labour utilisation is bounded by the number of hours people want to work.

By contrast, productivity growth is not bounded (although the current productivity level is bounded by the technology frontier).

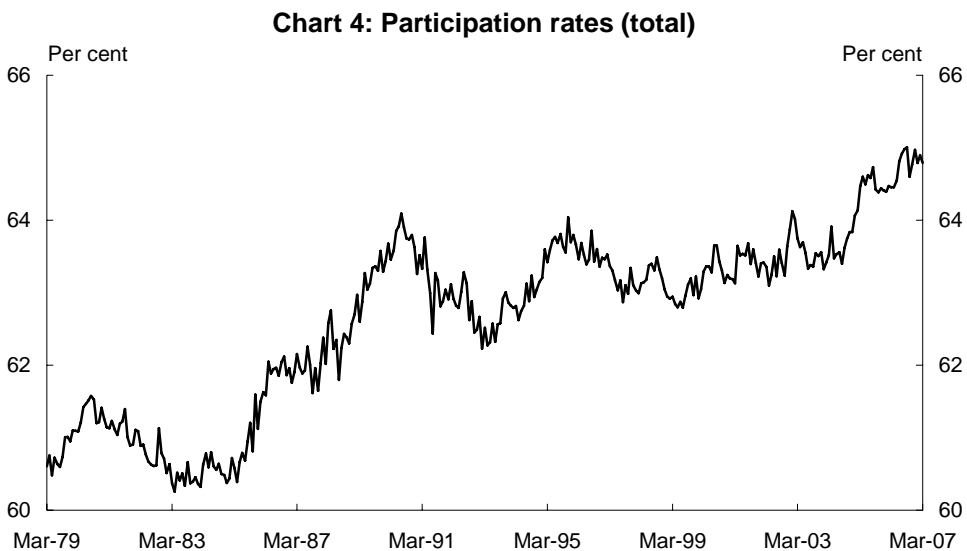
### Decomposition of labour utilisation

In Australia, labour utilisation has increased over time, with average weekly hours per capita increasing from around 15.5 hours in the 1960s to around 17 hours in 2006. Changes in labour utilisation can be decomposed into changes in: labour force participation; population; unemployment; and hours worked by employed people. While growth in total population tends to be steady and has little impact on the swings in labour utilisation, the age distribution of the population has a large impact on labour utilisation.

All other things being equal, an increase in labour utilisation would result from an increase in the participation rate, an increase in the working age proportion of the population (15 to 64 year olds), an increase in average hours worked or a decrease in unemployment.

### Participation

Chart 4 shows that the participation rate, the ratio of the labour force to the population aged 15 years and over, increased gradually from around 61 per cent in the late 1970s to 64.8 per cent in March 2007. An all time high was reached in September 2006.



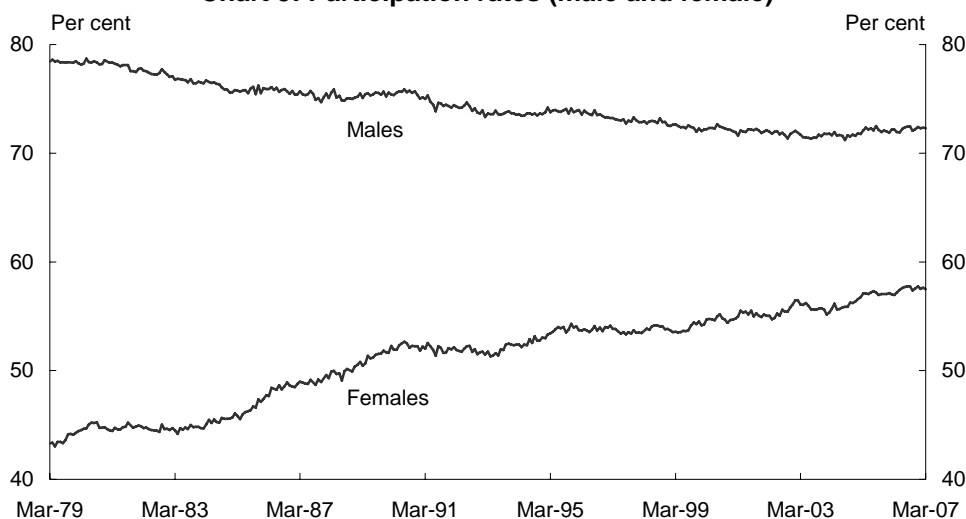
Source: ABS cat. no. 6202.0.

Behind this development has been an increase in female labour force participation which has more than offset a decline in male participation (Chart 5). The female participation rate has increased from around 44 per cent in the late 1970s to

Statement 4: Australia's Labour Force Utilisation

57.5 per cent in March 2007, lifting total participation over the same period. Similarly, participation rates for students also increased over this period.

**Chart 5: Participation rates (male and female)**



Source: ABS cat. no. 6202.0.

Strong employment growth since 2004 has encouraged more people to enter and remain in the workforce. In particular, the participation rate of males appears to have ceased its long-term decline and has recently increased slightly.

Australia's participation rate exceeded the OECD average of 60.2 per cent in 2005 but was below the rates of nine other countries, including Canada, Denmark, Norway, Switzerland, Sweden and the US.

Abhayaratna and Lattimore (2006) identified the key cohorts in which Australia's participation is relatively low. For prime aged males (25 to 54 years), Australia ranked 25th among 30 OECD countries in 2005, more than 5 percentage points below the top ranking countries. For child-bearing aged females (25 to 44 years), Australia ranked 23rd, well behind the rates of New Zealand, the US, the UK and Canada. For people nearing retirement (55 to 64 years), Australia ranked 13th, behind the rates of New Zealand, the US, the UK and Canada. If Australia closed the participation gap with the highest ranking comparable OECD country in 2005 for each of these labour market segments, there would have been around an additional 600,000 people participating in the labour force.

Several countries with higher participation rates than Australia have much higher participation amongst older workers. For example, participation rates in 2005 amongst 55 to 64 year olds were 86 per cent in Iceland, 73 per cent in Sweden, 71 per cent in New Zealand, 69 per cent in Norway, 68 per cent in Switzerland, and 67 per cent in Japan. The same rate for Australia was around 55 per cent.

Nonetheless, participation amongst older workers in Australia has risen significantly over recent years. Kennedy and Da Costa (2006) find that the increase in the participation of women aged 55 to 64 years since the early 1990s is evenly spread between part-time and full-time participation. For men, full-time participation fell between the late 1970s and mid-1990s before rising sharply in 2000. Part-time participation has been on a steady upward trend over this whole period. Over time, different generations of men have not had markedly different participation rates in older years except the most recent generation, but more recent generations of women have had higher participation. This suggests that the upward trend in female participation will continue for some time yet. It is too early to tell whether the recent increase in older male participation will be sustained.

Kennedy and Da Costa also suggest that tightening eligibility for the Disability Support Pension, the mature age tax offset and the recent changes to superannuation might be part of the explanation for higher participation of older workers. Moreover, increasing educational attainment of younger generations may contribute over time to higher participation rates. There may be family reasons – increased participation by women might be causing higher participation by men, if partners choose to retire at the same time. Attitudes about hiring older worker could be changing. Older workers may be reducing their hours and working part time as a transition to retirement rather than giving up work altogether. It may also be a behavioural response to increasing life expectancy and concerns about retirement income adequacy. Finally, the cyclically strong labour market could be causing fewer separations of older workers and so reducing ‘unplanned’ retirement.

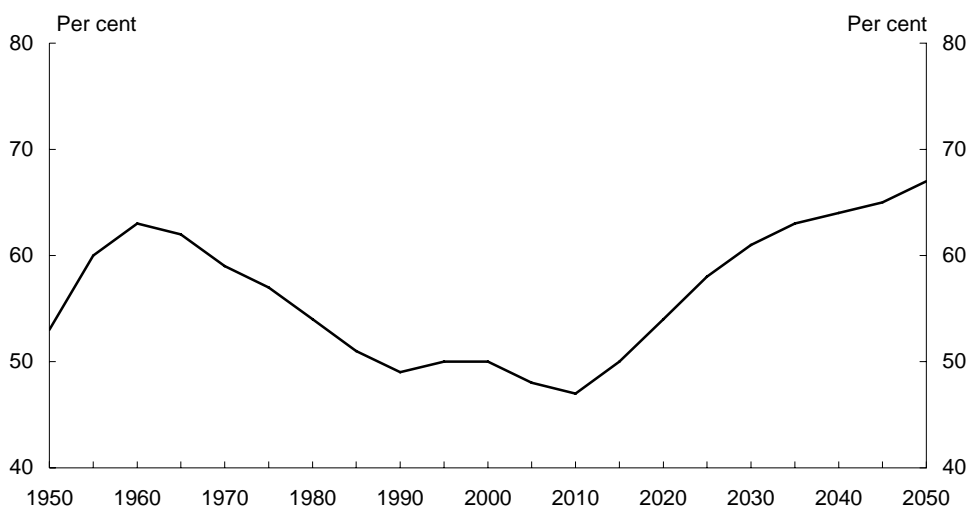
The *Intergenerational Report 2007* projects that Australia’s overall participation rate will fall from around 65 per cent to around 57 per cent by 2046-47 due to the ageing of the population. Notwithstanding that the participation rate of people of traditional working age (15 to 64 year olds) is expected to rise from 76.2 per cent in 2006-07 to 78.1 per cent over the same period the participation rates of older cohorts are also expected to rise, but not to the levels of younger cohorts. With increasing shares of the population in older cohorts, the overall participation rate will fall. These trends highlight the important role played by demography on participation.

## **Demography**

One way of illustrating the importance of demography on labour utilisation is to examine the dependency ratio: the number of dependants – the young aged 0 to 14 and those aged 65 and older – divided by the number of working age population. A decline in the dependency ratio lifts labour utilisation in two ways. First, it means the proportion of working aged people in the population increases. Second, the albeit smaller effect, is that fewer dependants need fewer unpaid carers to look after them. As Chart 6 shows, the dependency ratio declines steadily from the 1960s as the sharp decline in young dependants more than offset the gradual rise in the proportion of older persons until we reach a demographic ‘sweet spot’ in around 2010. After this

time the rise in older persons dominates and demography begins to detract from labour utilisation.

**Chart 6: Dependency ratio — Australia**



Source: United Nations 2006 Revision Population Database, medium variant.

In Australia, as with many developed countries, population ageing will reduce labour utilisation over the next 40 years. The *Intergenerational Report 2007* projects that in the period to 2047 the number of 0 to 14 year olds in Australia will rise slightly, those of traditional working age (15 to 64 years) will rise by about 20 per cent, older people (65 to 84 years) will more than double and the very old (85 years and over) will more than quadruple. The dependency ratio (both young and old as a proportion of working age people) will rise from around 50 per cent in 2007 to nearly 70 per cent in 2047. On current participation rates by age cohort, this implies a significant reduction in the availability of labour.

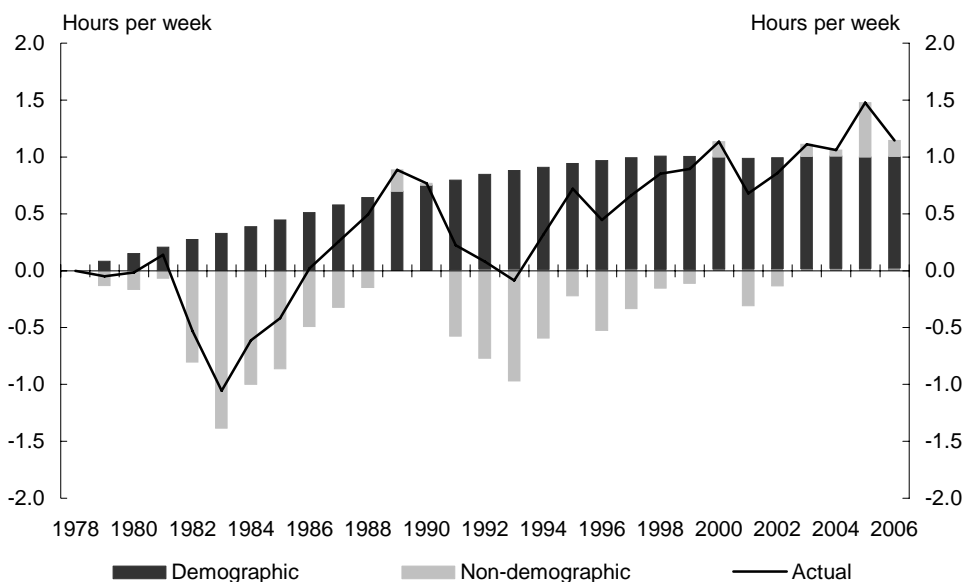
Australia is by no means alone in facing a rising dependency ratio – in fact, Australia's demographic challenge in this respect is much less serious than in some other countries. The dependency ratio averaged 65 per cent in the OECD area in 2005 and ranged between about 55 per cent in Korea, the Czech and Slovak Republics and above 80 per cent in Mexico and Turkey. The dependency ratio is expected to rise sharply in most OECD countries, except Mexico and Turkey where it is expected to decline. By 2050, the dependency ratio is expected to exceed 100 per cent in Italy, Japan and Spain.

The rise in the dependency ratio comes about despite a fall in the proportion of young people. The youth-dependency ratio fell from around 60 per cent in 1980 to around 40 per cent on average in the OECD area in 2005. In most OECD countries, the youth dependency ratio is projected to continue to decline but only modestly to average 37 per cent in 2050. On the other hand, the elderly-dependency ratio across the OECD

has risen from around 20 per cent in 1980 to around 24 per cent in 2005. By 2050, this ratio is projected to more than double in the OECD area to 52 per cent. Some countries will face much sharper increases. By 2050, the old-age-dependency ratio will exceed 70 per cent in Italy, Spain and Japan (OECD 2006c).

The impact of demography can also be shown by disaggregating the increase in utilisation into demographic and non-demographic factors. The solid line in Chart 7 shows that labour utilisation has increased by around 1.2 hours per week since the late 1970s. The bars represent contributions to the change. The demographic effect has increasingly contributed to higher labour utilisation as working age cohorts have increased relative to the total population. From the turn of this decade, the demographic effects are projected to be negative (for both males and females). The non-demographic effects include the impact of business cycles on unemployment and average hours, plus changing participation rates and hours worked within age cohorts. Non-demographic effects have mostly added to labour utilisation only in recent years.

**Chart 7: Contributions to the increase in labour utilisation**

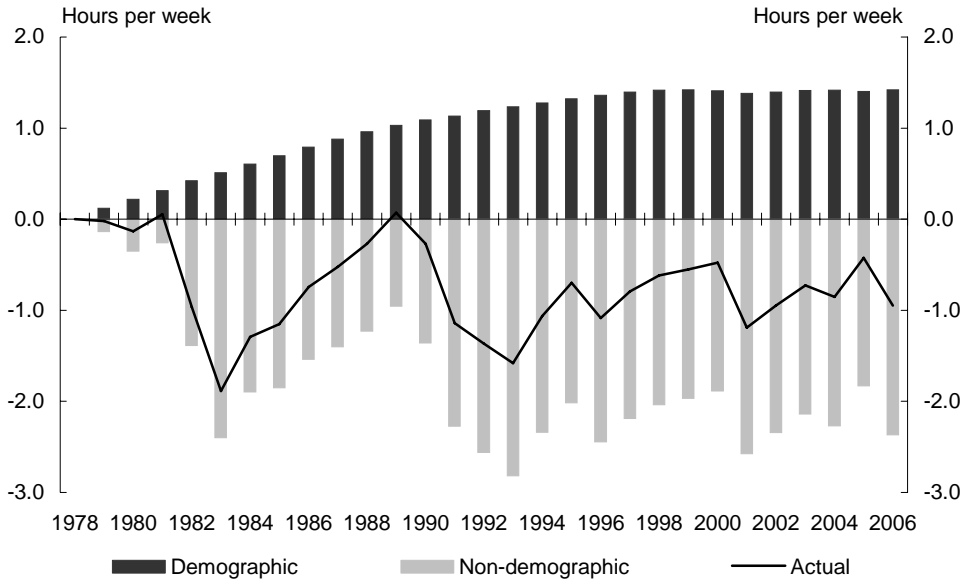


Note: Contributions to the change in labour utilisation are calculated using a rolling annually re-weighted shift-share approach.  
 Source: Australian Bureau of Statistics and Treasury calculations.

The underlying trends are quite different for males and females. For males, the non-demographic effects have been negative, more than offsetting the demographic effects, resulting in average weekly hours worked per male falling by around an hour per week (Chart 8).

Statement 4: Australia's Labour Force Utilisation

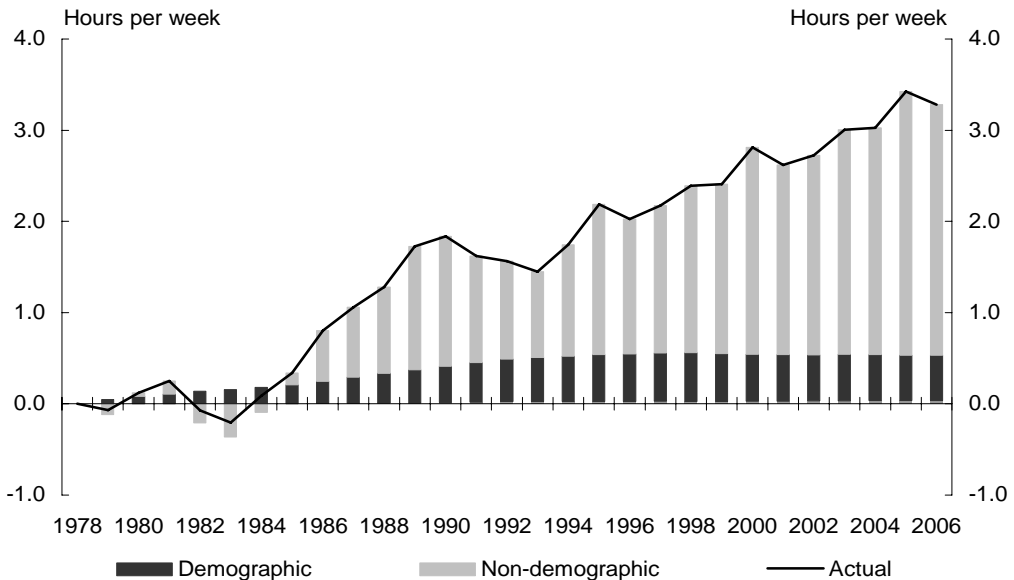
**Chart 8: Contributions to the increase in labour utilisation (males)**



Source: Australian Bureau of Statistics and Treasury calculations.

For females, both demographic and non-demographic effects have contributed to increased average hours worked, with non-demographic effects having a larger influence than demographic effects. Average weekly hours per female have increased by over 3 hours per week (Chart 9).

**Chart 9: Contributions to the increase in labour utilisation (females)**



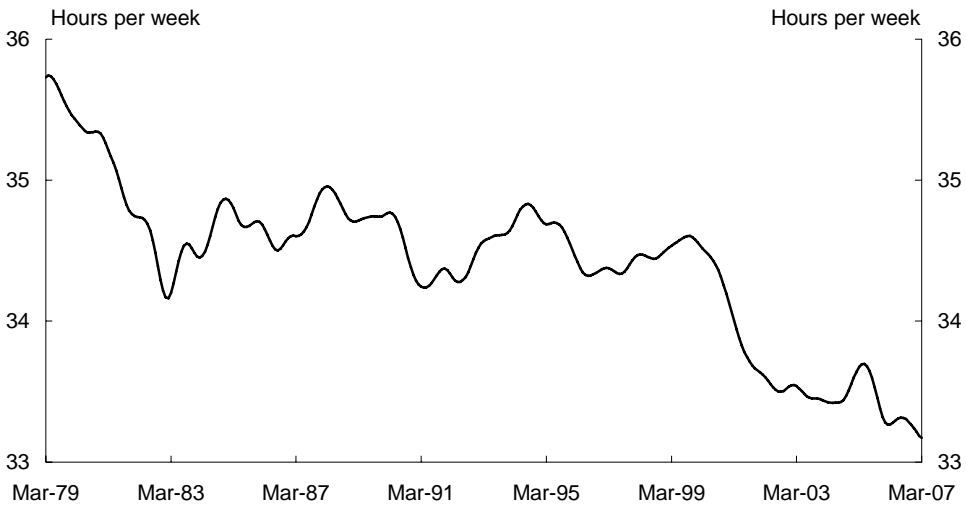
Source: Australian Bureau of Statistics and Treasury calculations.



### Average hours

While labour utilisation overall has increased, average weekly hours worked per employed person have fallen by over two hours since the late 1970s (Chart 10).

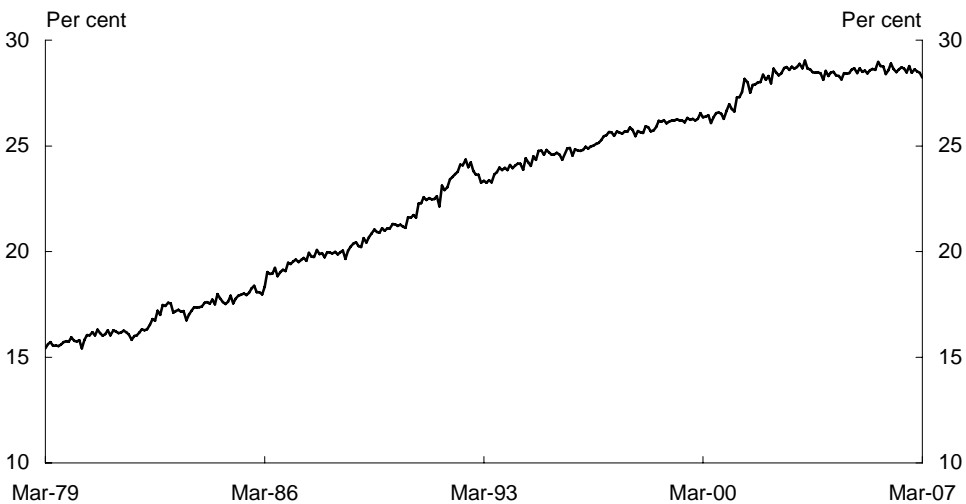
**Chart 10: Average weekly hours of those in work**



Source: ABS cat. no. 6291.0.55.001 and Treasury calculations.

The main source of the decline is an increase in the proportion of part-time workers (Chart 11). On average, part-time employees work around 16 hours per week compared with around 40 hours for full-time employees.

**Chart 11: Part-time share of total employment**



Source: ABS cat. no. 6202.0.

#### Statement 4: Australia's Labour Force Utilisation

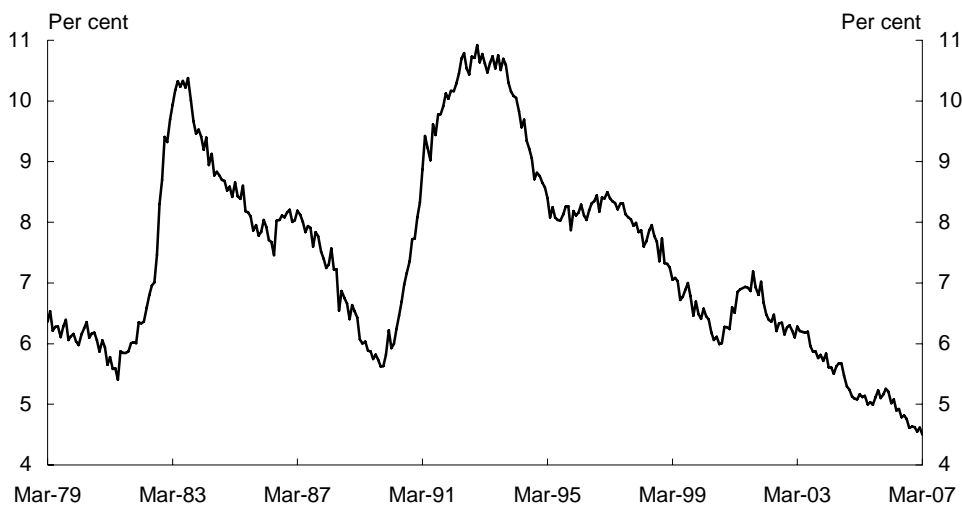
Increased part-time work should be regarded as a positive development if it reflects individuals' preferences for labour and leisure. Casual employment is taken up in a latter part of the statement.

While average hours worked per employee have been falling as the share of part-time employment rises, it has been suggested that Australians in full-time employment have been working longer average hours than any other OECD country. However, at around 40 hours per week, average full-time hours are currently around the same level they were three decades ago. In addition, recent work by the Australian Bureau of Statistics (Baker and von Sanden 2006) suggests that there has been a consistent overestimate in the hours measures used to rank Australia against other OECD countries. Once this has been accounted for there is no evidence to suggest that Australians working full-time are working more, or indeed fewer, hours per week than workers in other OECD countries.

### Unemployment

Increased participation alone will not lift labour utilisation unless those new participants are employed. The unemployment rate has fallen to a 30-year low (Chart 12). Following the oil shock in the early 1970s, the unemployment rate rose sharply from around 2 per cent to around 6 per cent between 1974 and 1978. This reversed a steady trend towards increasing labour utilisation underway since the 1960s. Following the recessions in the early 1980s and early 1990s, unemployment again rose sharply with the result that over 10 per cent of the labour force were without a job. Strong employment growth since the early to mid-1990s has resulted in a steady fall in the unemployment rate.

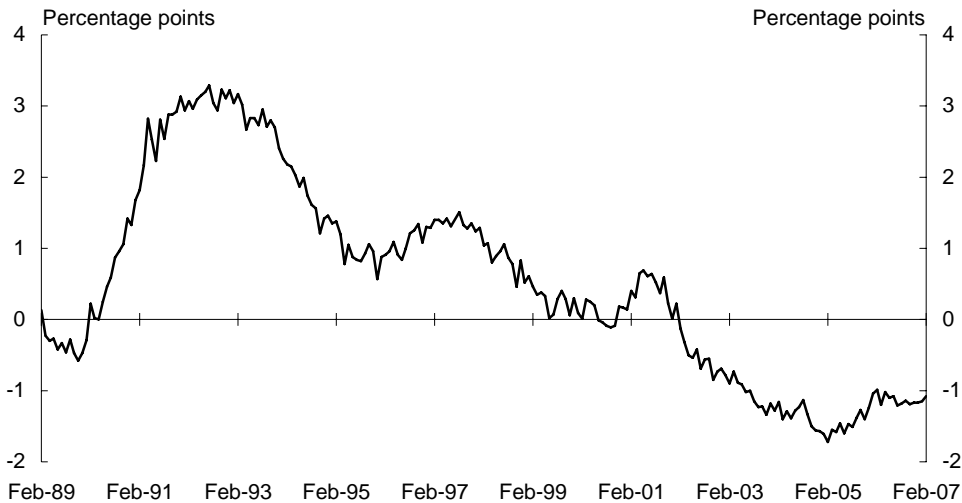
**Chart 12: Unemployment rate**



Source: ABS cat. no. 6202.0.

Australia's unemployment rate is below the OECD average, and lower than major economies such as the UK and Canada and similar to that in the US. Moreover, Australia's unemployment rate has fallen substantially more than the OECD average over the last decade and a half (Chart 13). On the OECD's standardised unemployment rate measure, the most recent peak in both the OECD average and Australian unemployment rates was in 1993, when the OECD average was 7.8 per cent and the Australian rate was 10.6 per cent. The gap between unemployment rates was virtually closed by the end of the last decade. In more recent years, Australia's unemployment rate is a full percentage point or more lower than the OECD average unemployment rate.

**Chart 13: Difference between Australian and OECD unemployment rates**



Source: OECD Main Economic Indicators database.

Reduction in the unemployment rate is likely to be assisted by a mobile labour force. This aspect is taken up in Box 1.

### Box 1: Labour mobility

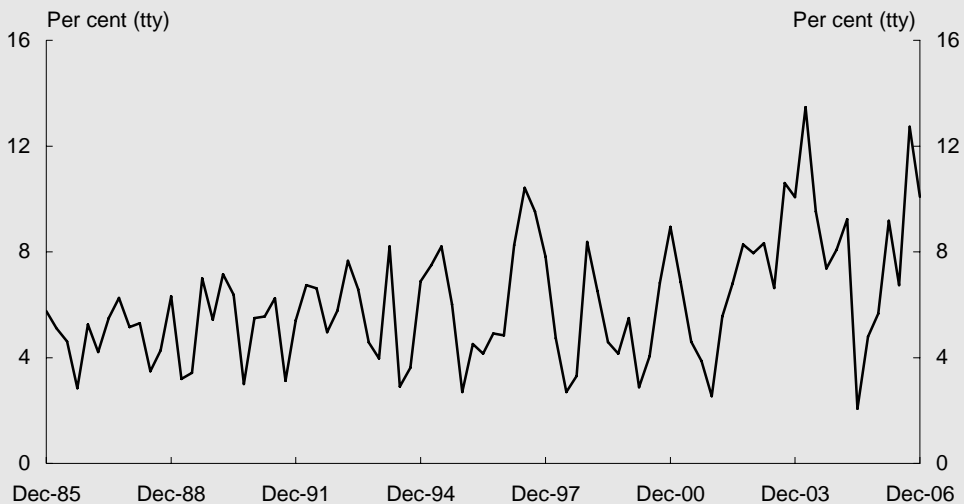
A flexible, mobile labour force plays an important role in maintaining macroeconomic stability by preventing wage pressures in one region or occupation spilling into more generalised wage pressures and inflation at the national level. Labour mobility also facilitates economic growth by enabling the reallocation of labour to its most productive use, including in order to exploit new opportunities and technologies as they arise.

In an economy operating at close to full employment, relative wage adjustments become even more important in attracting workers from other industries or regions. Under a rigid, centralised wage fixing system, wage dispersion would be low and firms in more productive sectors of the economy would find it more difficult to attract workers from less productive sectors. As wage setting becomes more decentralised and responsive to sectoral and regional conditions, the dispersion of wages is higher resulting in higher labour mobility, a lower dispersion of unemployment and improved national productivity.

Chart A shows the range of annual growth in average weekly earnings in the six States. The increasing volatility of this indicator suggests that wage flexibility across the States has been increasing. As discussed in Budget Statement 3 increased wage dispersion provides a clearer signal about changes in labour demand in industries and regions, and is one factor that will increase labour mobility and reduce regional unemployment disparity.

**Chart A: Range of state wages growth**

(Average weekly ordinary time earnings for full-time adults)



Source: ABS cat. no. 6302.0 and Treasury calculations.

## **FACTORS AFFECTING LABOUR UTILISATION DECISIONS**

The focus of this section is on the role of recent government policy in influencing labour utilisation decisions. These policies have implications for both the supply and demand for labour.

Ultimately, the decision to participate in the labour market is based on an individual's preferences for work and leisure. Paid work provides individuals with substantial benefits, including a means to satisfy their material needs and those of their families, the opportunity to develop personally, live independently and interact socially. Factors that influence a decision to participate in the labour market include family situation, educational attainment, age, tax and welfare payment implications.

### **Macroeconomic performance**

Australia has experienced more than a decade and a half of continuous economic growth. GDP growth since the turn of the millennium has averaged above 3 per cent per annum, among only a handful of OECD countries achieving such rapid growth.

During this 15 year period, Australia has experienced a number of external and internal shocks – the Asian financial and economic crises, two major droughts, the global slowdown of 2001, the uncertainty after the 9/11 attacks, SARS, a housing boom, natural disasters, significant increases in oil prices and the commodities boom. Any of these shocks could have triggered an economic slow-down and/or higher inflation in years past, but there have been notable improvements in resilience compared with earlier times. Australia not only continued to experience stable economic growth but thrived, surpassing the per capita income levels of the average of OECD countries. Australia has reached record employment levels and attained the lowest unemployment figures for 30 years, with low inflation.

Australia has maintained a strong economic record in the face of these shocks because the economy is more flexible and better able to adapt quickly to change. The OECD (2006a) has recently commented that wide-ranging macroeconomic and microeconomic reforms, particularly to promote competition, were instrumental in engendering greater flexibility in the Australian economy. These reforms are broad and deep, and have been implemented progressively over many years.

Key macroeconomic reforms of recent years include the adoption of a fiscal policy strategy with the primary objective of budget balance over the economic cycle and formalising the independence of the central bank to pursue a medium term inflation target. Together, these policies act to maintain economic stability, encourage private investment, entrench low public debt and ensure that, over time, the current account continues to reflect private saving and investment decisions. The fiscal pressures associated with demographic change are addressed in the fiscal strategy through a supplementary objective of improving the Government's net worth. This has led to the creation of the Future Fund.

#### *Statement 4: Australia's Labour Force Utilisation*

Microeconomic reforms have also played a significant role in helping to maintain the stability and flexibility of the economy. Microeconomic reforms include: liberalising Australia's foreign trade and investment; liberalising financial markets and workplace relations regimes; major tax and transfer payments reform that broadened the base and lowered tax rates for both corporations and individuals; reforms of the indirect tax system; targeted incentives to work and save; corporate law reform; and a broad ranging National Competition Policy agenda. By 2003, Australia's economy wide product market regulations were judged to be the least restrictive in the OECD.

Notwithstanding the above, the reform task is far from complete. Substantial issues around national markets remain difficult to progress because of federalism constraints. Areas of 'new scarcity' require economic solutions – notably water and greenhouse. There is also a need for attitudinal change in policy making, away from promotion of resource utilisation – job creation – to resource allocation and resource creation; that is, supply side improvement.

### **The taxation and income support system**

Australians' decisions on whether to work and how long to work are influenced by the tax system and the provision of income support. The tax and income support systems should minimise distortions between reward and effort, while providing assistance for those in need. The challenge is to avoid undue disincentives to work.

Over a number of years, the Government has lowered the marginal income tax rates and increased the thresholds at which the rates start to apply. For example, compared with their income tax liability prior to the introduction of *The New Tax System*, and including changes in the 2007-08 Budget, on 1 July 2008 a person on \$25,000 will have had a tax reduction of around 54 per cent, a person on \$65,000 will have had a tax reduction of around 33 per cent and a person on \$100,000 will have had a tax reduction of around 29 per cent. This has improved incentives to lift workforce participation.

In particular, the increases announced in the 2006-07 and 2007-08 Budgets in the 30 per cent tax threshold from \$21,601 to \$30,001 and the substantial increases in the Low Income Tax Offset will have increased incentives for workforce participation, particularly for secondary income earners who are more responsive to changes in tax.

The earlier reductions in the top two tax rates to 40 per cent and 45 per cent and increases in the top two tax thresholds, with further increases in these thresholds from 1 July 2008 announced in the 2007-08 Budget, are seeing increased returns to individuals from supplying more labour and enhanced international competitiveness of Australia's personal income tax system. Maintaining this competitiveness is important for sustaining workforce participation and productivity in Australia. The overall rates and thresholds of Australia's tax system now compare favourably with other similar countries.

Australia has a highly targeted welfare system. The Family Tax Benefit system recognises that households with children face greater costs than those without. Family Tax Benefit Part A is directed towards those families with lower incomes. The necessary implication of targeting benefits is that as family income increases benefits are withdrawn. The alternatives are either not to provide these benefits (thereby leaving beneficiaries worse off) or creating a universal entitlement system with the higher spending, higher taxing and greater churning that such a system would entail.

While Australia's tax and targeted welfare systems necessarily create higher effective marginal tax rates, the Government seeks to identify and act where it can to reduce these and minimise their impacts. Over recent years, effective marginal tax rates have decreased significantly for families. For example, before 2000-01, families faced a 50 percentage point increase in their effective marginal tax rates from the withdrawal of family payments above the base amount. *The New Tax System* of 2000-01 reduced this withdrawal to 30 percentage points. In 2004-05 the withdrawal rate was reduced further to 20 percentage points.

The Government's Simplified Superannuation reforms provide greater incentives for labour force participation by older workers by introducing greater flexibility in how superannuation savings can be drawn down in retirement. The reforms will encourage people to maintain their connection with the workforce.

From 1 July 2007, superannuation benefits paid from a taxed fund will be tax free for people aged 60 and over. This will increase retirement incomes, particularly for individuals who make additional superannuation contributions. Further, people aged 60 and over may pay less tax on other income as superannuation amounts paid from a taxed fund will not be included as assessable income. This will increase the incentive for individuals to undertake work whilst also drawing down their superannuation. The halving of the assets test taper rate for the age pension will also provide greater incentives for individuals to work.

The reforms will also increase incentives for the self-employed to participate in the labour force and save for their retirement as they will be eligible for a full deduction for their superannuation contributions (up to \$50,000 a year), and for the Government's co-contribution for personal contributions.

These reforms follow significant changes in 2004, when the Government announced a number of measures to broaden access to superannuation and improve the flexibility of the superannuation system. Changes included simplifying the work rules for those over 65, and the introduction of the 'transition to retirement' measure to allow individuals to draw down on their superannuation while still working.

### **Family and individual circumstances**

The ability to balance family responsibilities with work is a key issue for many Australians. Access to affordable, high quality child care is a key factor in participation

#### *Statement 4: Australia's Labour Force Utilisation*

decisions, particularly for women of child-rearing age, who are relatively under-represented in the labour force.

The accessibility of child care in Australia has improved. Since 1 July 2006, there has no longer been a limit on the number of outside school hours care and family day care places. These places are now treated the same way as long day care places, which were already uncapped. This allows existing and new child care providers to expand child care places to meet demand. Overall, child care places have increased from around 300,000 in 1996 to around 600,000 places currently, and by 2009 there are likely to be over 700,000 child care places.

The cost of child care directly affects female labour force participation. The international empirical literature bears out this inverse relationship, although the range of responses varies widely. In Australia, the results are similar, yet tend toward the lower end of the range found in the international literature (Doiron and Kalb 2005; Rammohan and Whelan 2005; Kalb and Lee 2007). Evidence also shows the impact of child care costs on labour force participation varies across different subgroups within the female labour force. For example, Kalb and Lee (2007) show that a given change in child care costs has a greater impact on the participation of sole parents, mothers of preschool age children, and low income parents.

The affordability of child care has been improved through the Child Care Benefit and the Child Care Tax Rebate. Child Care Benefit is a subsidy which varies according to parents' income, the number of children in care and the type of care. The Child Care Tax Rebate is a non-refundable tax rebate on 30 per cent of out-of-pocket child care expenses; that is, fees incurred for approved care less Child Care Benefit.

In the 2005-06 Budget the Government announced a comprehensive package of reforms to the welfare payments system. The Welfare to Work reforms involve rebalancing the welfare system to increase the workforce participation of those working age Australians with the capacity to work, while maintaining a strong safety net for those who need it. The reforms focus on improving the labour force outcomes of people with disabilities, parents, mature age people and the long term unemployed through a combination of new eligibility rules for income support payments, more places in employment services, changes to participation requirements, a new compliance framework and an Employer Demand strategy.

The major component of the Welfare to Work package includes measures designed to encourage parents and people with disabilities to re-enter the workforce. In addition, the participation obligations for mature age people on Newstart Allowance are now more consistent with those for younger recipients and assistance for the long-term unemployed has been expanded.

The new participation requirements are also supported by improved employment services that include a new Employment Preparation service in Job Network for parents, carers, and mature age people returning to the workforce.



The income test for a number of allowance payments was also made more generous through a reduction in the maximum taper rate from 70 cents to 60 cents in the dollar. This initiative reduces effective marginal tax rates, thus improving the rewards from part-time work.

To assist employers to employ people with disabilities and parents who require flexible working arrangements an Employer Demand strategy has also been introduced. This strategy provides funding of up to \$100,000, for up to 12 months, for innovative recruitment, employment and retention projects that are specifically aimed at the Welfare to Work target groups.

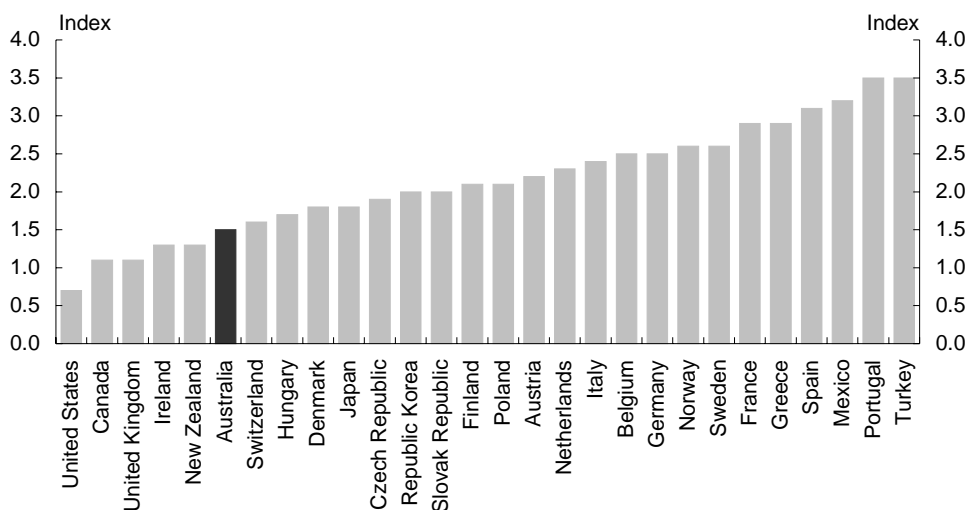
### **Labour market regulation**

There have been significant reforms to the Australian labour market and workplace relations system in recent years. Simplifying workplace agreement procedures and allowing wages and conditions to be better linked to productivity improvements provides greater incentives for work and the creation of new jobs and assists many families with marginal labour force attachment to participate in paid work.

The *Workplace Relations Act 1996* increased scope for direct bargaining between employers and employees at the workplace level, either collectively through Certified Agreements or individually through Australian Workplace Agreements, thereby reducing the role of awards in setting pay and conditions. This formed a framework of rights and responsibilities for employers and employees to choose the most appropriate form of agreement for their particular circumstances. However, workplace relations laws remained complex, particularly in relation to unfair dismissal laws.

Research by Harding (2002) found that unfair dismissal laws made it difficult for the most vulnerable job seekers to find work and contributed to the loss of about 77,000 jobs. The regulatory burden on employers and flexibility in hiring and firing decisions are key factors affecting labour utilisation. Employment protection legislation (EPL) – the set of rules governing the hiring and firing process – tends to limit firms' ability to fire workers. As a result, firms may be more reluctant to hire workers if they face high lay-off costs so the unemployed may face longer durations of unemployment. Chart 14 shows that Australia is relatively lenient on EPL, although not as flexible as some countries including the UK and the US.

**Chart 14: Summary index of employment protection legislation strictness, 2003**



Source: OECD 2006a.

The Government's Work Choices reforms which came into effect in March 2006 have a number of interrelated elements designed to reduce unemployment, improve productivity and participation and deliver higher real wages. Work Choices involved the introduction of a national workplace relations system; the simplification of the agreement making process with a greater emphasis on direct bargaining between employers and employees at the workplace level; the creation of the Australian Fair Pay Commission and the Australian Fair Pay and Conditions Standard which are enshrined in legislation; and changes to the unfair dismissal laws.

Under Work Choices firms with 100 or fewer employees are exempt from the operation of unfair dismissal laws. In addition, for employees of larger firms there is a six month qualifying period and any dismissal on the grounds of operational requirements is permitted.

The OECD has identified cross-country factors that have been important for achieving employment and economic growth. Increasing the flexibility of the labour market is central. The OECD (2006d) stated that 'the increasing scope for direct negotiations between employers and employees has probably also helped to raise productivity, as enterprise bargaining allows firms to adopt productivity enhancing practices and promotes a more co-operative work environment where performance and reward are more closely linked.'

Other findings in the OECD survey included the greater use of bargaining over working conditions, including wages, at the collective and individual level due to the introduction of a number of reforms. These reforms included reduced complexity in awards and the reduced number of allowable matters in awards.

There has also been an increased take-up of collective and individual agreements by employees in recent years, with a continued decline in employees on awards.

Lawson and Bierhanzl (2004) look at the relationship between labour market flexibility and unemployment and find that the five OECD countries with the least regulated labour markets had, on average, unemployment rates of 4.7 per cent. This compares to an average unemployment rate of 7.3 per cent for the five OECD countries with the most regulated labour markets.

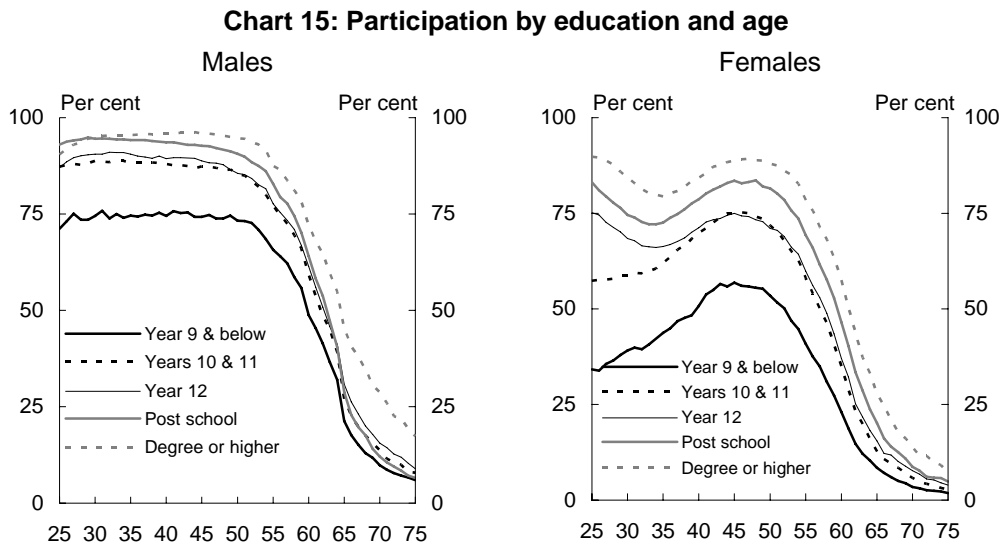
More flexible labour markets are also important for an economy to more easily adjust to external shocks. The OECD (2006d) stated that 'Recent experience confirms the importance of policies to assure that wages adjust flexibly in response to supply- and demand-side pressures, so as to support high levels of employment in a constantly changing economic environment.' Kent, Smith and Holloway (2005) and Cotis and Coppel (2005) found that labour market reform in OECD countries results in fewer economic downturns and reduces the size of the downturns if they do occur.

## **Education and training**

The link between educational attainment and increased labour utilisation is well established. The OECD (1998) found that, on average across countries, individuals with below upper secondary education attainment spend more than twice as much time unemployed as tertiary graduates in the course of their working life. A more recent study by the OECD (2006b) suggests that the employment rate for graduates of tertiary education is markedly higher than the rate for upper secondary graduates.

Looking specifically at Australia, Kennedy and Hedley (2003) found substantial variation in labour force participation rates of males and females with different levels of educational attainment (Chart 15). Workers with no post-school education participate less in the labour force at all ages. Employment rates rise with educational attainment in most OECD countries.

In 2003, the proportion of Australians aged 55 to 64 with at least an upper secondary education was 11 percentage points below the weighted average of the rest of the OECD, but the proportion of 25 to 34 year olds with the same qualification was marginally above the OECD average. As older workers retire, the secondary education attainment gap will narrow under existing policy settings. The proportion of Australians with a tertiary education (including vocational education and training) is above the OECD in all age groups.



Source: Kennedy and Hedley (2003).

In recent times, Australia has performed better than the OECD average on some indicators of education quality. For example, Australia ranks above the OECD average, and well above the US, on mathematics performance of 15-year old students, based on data from the Programme for International Student Assessment (PISA) (OECD 2006b). Countries with a higher ranking than Australia include Finland, Korea and the Netherlands. Improving education outcomes does not always correspond with higher expenditure. Australia spends around US\$ 7,500 per student per annum, in line with the OECD average but achieves above average outcomes. In contrast, the US spends around US\$ 12,000 per annum but falls at the lower end of the PISA scale.

The Australian economy is currently operating somewhere near full capacity. In this macroeconomic environment further gains in labour utilisation are unlikely to come from policies that target aggregate demand. Instead, policies will need to focus on resource allocation and resource creation. Improving the skills of the Australian workforce is one such approach, given the positive link between education and workforce participation and productivity. Those with higher levels of education are generally more employable and able to earn higher wages than those without.

A high quality and responsive education system is vital to increasing skills. With the right policy settings, the Australian education system will deliver the workforce that Australia needs for future prosperity. It will be an education system responsive to the needs of students and employers. It will also improve the capacity of individuals to participate in society. This budget includes a comprehensive package of assistance to Australia's education system through the *Realising Our Potential* package that covers the university, vocational and school systems.

## **Immigration**

With the economy at near full capacity and in the face of an ageing population, migration, with particular emphasis on skilled migration, continues to be a priority source of labour for Australia. As a result of net migration, one in four Australian residents is foreign born, the highest proportion in the OECD after Luxemburg and well above the OECD average of one in twelve (OECD 2004b). Net overseas migration has been increasing recently and reached a record high of around 125,000 per annum over the past few years, with most migrants being highly skilled.

Migrants tend to be younger, on average, than the resident population but they also tend to have lower participation rates. The Productivity Commission (2006) found that the average participation rates for all immigrant groups in 2004, was 62.1 per cent compared to 67.3 per cent for those born in Australia. The difference can be explained by compositional differences across the two groups in terms of education, location, gender, age and English ability.

Australia's emphasis on skilled migration will help lift total labour utilisation rates, however, as skilled migrants have significantly higher participation (82 per cent) than Australian born. Skilled migrants are, on average, more highly educated and of prime working age. By contrast, the participation rates for humanitarian settlers and those entering under the family stream are significantly lower, at 39.6 per cent and 57.9 per cent.

There is little evidence that migration adversely affects the labour market outcomes of Australian born workers, and studies have found that immigration has not resulted in higher aggregate unemployment. Employed immigrants worked an average of approximately half an hour longer per week than Australian-born workers based on data obtained from 1986 to 2001. The difference in hours worked can be explained by differences in age, industry and occupation of employment of migrant workers.

In recognition of the valuable economic contribution and high participation rates of skilled migrants, the size of the migration programme will increase by 8,800 in 2007-08 to up to 152,800 places. Of these additional places, 5,000 will be migrants in the skilled stream. This expansion will build on previous expansions of the skilled migration programme over recent years.

Migrants also add to general demand in the economy. Immigration programmes can selectively reduce particular labour market pressure points, but can also shift excess demand pressures to those parts of the economy where supply is relatively unresponsive – in particular, the housing market.

## EMPLOYMENT FLEXIBILITY AND SECURITY

Casual employment is an important feature of Australia's flexible labour market. In this section, the characteristics of casual employment are examined and the relationship between flexible labour markets and job security is discussed.

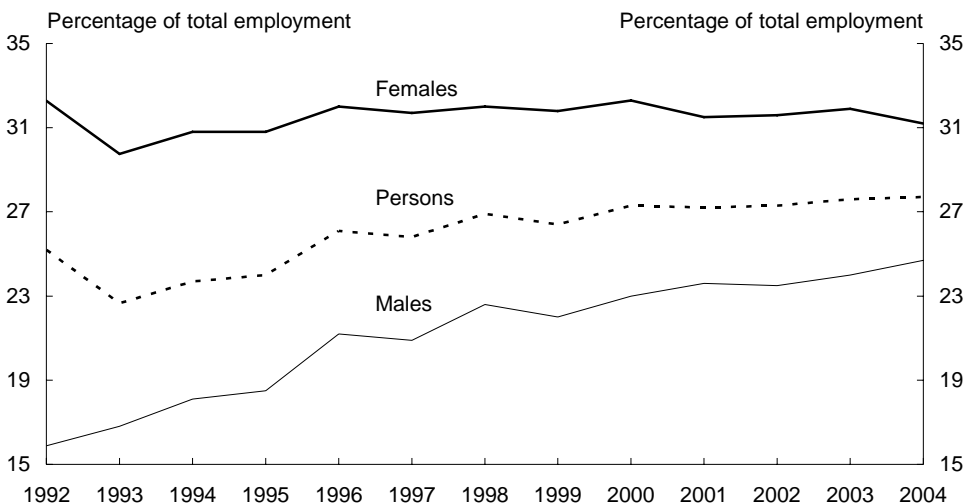
### Characteristics of the casual employment market

The structure and operation of the Australian economy has changed markedly over the past two decades. These changes have produced more flexible working arrangements for the 'traditional' full-time permanent workforce. At the same time, changes in the structure of the economy have resulted in increased demand for non-traditional workers such as the young, students and females who, because of non-work commitments, tend to engage in the labour market on a part-time, non-permanent or casual basis.

Changes to traditional working arrangements have given firms more flexibility to allocate labour resources, resulting in improvements in productivity in the workplace. The growth in non traditional, part-time and casual employment opportunities has also resulted in increased labour force participation.

International comparisons show Australia has a very high rate of casual employment (OECD 2004a). Casual employment has been growing in many OECD countries and the average has crept up from 10 per cent in 1984 to around 12 per cent in 2004. Spain has the highest rate of casual employment in the OECD, followed closely by Australia.

**Chart 16: Casual employment as a proportion of total employment**

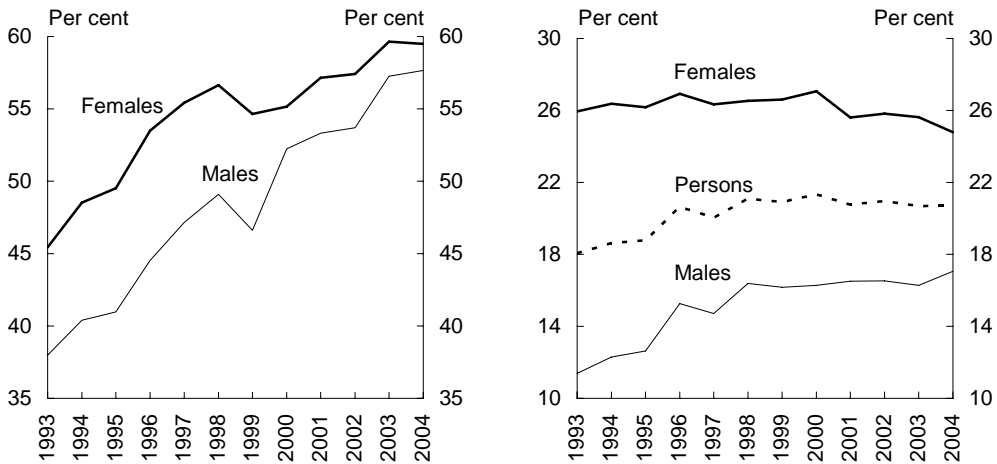


Source: ABS cat. no. 6310.0. and Treasury calculations.

Casual employment has been growing steadily in Australia. In 2004, around 28 per cent of the workforce was employed on a casual basis, up from 23 per cent in the early 1990s (Chart 16). While the proportion of female casual employment has changed little, the growth in male casual employment as a proportion of total male employment increased from around 17 per cent in the early 1990s to around 25 per cent in 2004.

Age plays a significant role in determining the likelihood of being employed on a casual basis. Casual employment has, as mentioned previously, provided employment opportunities to a range of people whose non-work commitments, including senior secondary and tertiary education, make it more difficult to engage in traditional employment arrangements. Young people (aged 15 to 24) in particular have benefited from these opportunities. Of those in employment, young people were almost three times more likely to be employed on a casual basis in 2004 than people 25 years and older (Chart 17). An interesting development is that the decline in older female casual employees has offset the rise in the young female casuals. For older males, casual employment grew sharply during the 1990s before levelling out somewhat since the late 1990s. This suggests that since that time, increases in male casual employment have been driven largely by younger males.

**Chart 17: Casual employment as a proportion of total employment by age**  
(15-24 years) (25 and over)



Source: ABS cat. no. 6310.0. and Treasury calculations.

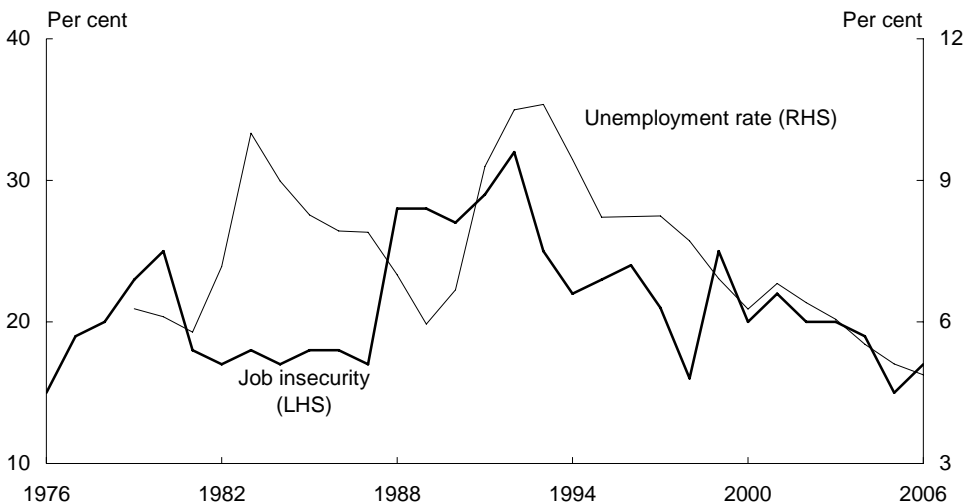
Casual employment may be a useful transition to more traditional forms of employment. The Productivity Commission (2006) found that casual employment may be a pre-cursor or 'stepping stone' to full time employment.

## Job security

Concerns have been raised that the benefits of flexible labour markets come at the cost of job security. Growth of non-traditional forms of employment, such as casual employment, had been viewed as inferior to 'traditional' full-time, permanent employment arrangements. The evidence does not support this view. Employment duration has changed little over the past two decades and direct measures of job security are around record highs. The best approach to maintaining job security at high levels is to ensure that macroeconomic policy is aimed at maintaining a strong, flexible economy that keeps unemployment low.

A recent survey (ABS 2005), found that despite 50 per cent of casual employees having current employment durations less than 1 year, over three quarters expect to be in their current job in 12 months time. For all other employment types, around 95 per cent expect to remain with their current employers for the next 12 months. There is very little difference between men and women in each category. Despite changes in the survey methodology, perceptions of job security remain largely unchanged from the two previous surveys carried out in 2001 and 1998.

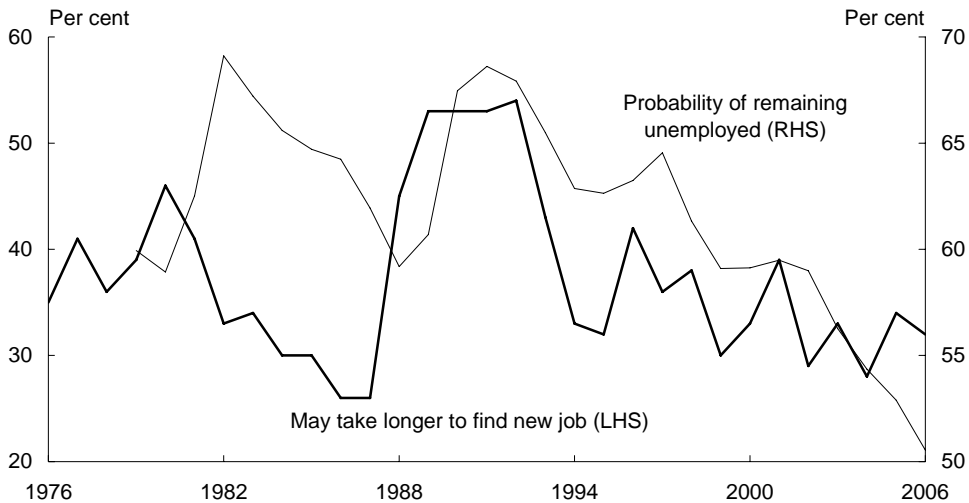
**Chart 18: Employment security and the unemployment rate**



Source: Morgan Job Security Poll and ABS cat. no. 6202.0.

The Morgan Poll (2007) has carried out an annual job security survey since 1975 making it the longest time series of job security perceptions available in Australia. The latest survey, carried out in December 2006, suggests that a record proportion of employees feel secure in their current jobs. Chart 18 shows that the perception of job insecurity, at least over the last 20 years, is related to the unemployment rate. As the unemployment rate falls, so does the proportion of people who feel insecure in their job.



**Chart 19: Testing job security perceptions**

Source: Morgan Job Security Poll, ABS cat. no. 6291.0.55.001 and Treasury calculations.

Another question in the same Morgan Poll series is 'if you became unemployed, would you be able to find another job fairly quickly?' People's perceptions may not be correct because employed people do not necessarily know what conditions are like for the unemployed. Chart 19 shows the Morgan Poll series against ABS data that shows the probability of remaining unemployed from month to month and suggests that respondents over the last 20 years have relatively accurate perceptions of conditions they will face if they find themselves unemployed. Based on this series it appears that as the probability of remaining unemployed falls so does the proportion of respondents who think it will take longer to gain employment.

## **POLICY PRIORITIES FOR MAINTAINING FULL EMPLOYMENT IN THE FACE OF GLOBAL CHANGE**

The previous sections of this statement took a retrospective look over time and across countries at the characteristics of Australia's labour market and the policy and non-policy factors that have contributed to the labour market outcomes over the past decade and a half. In this section, a forward look is taken at the likely trend in labour utilisation.

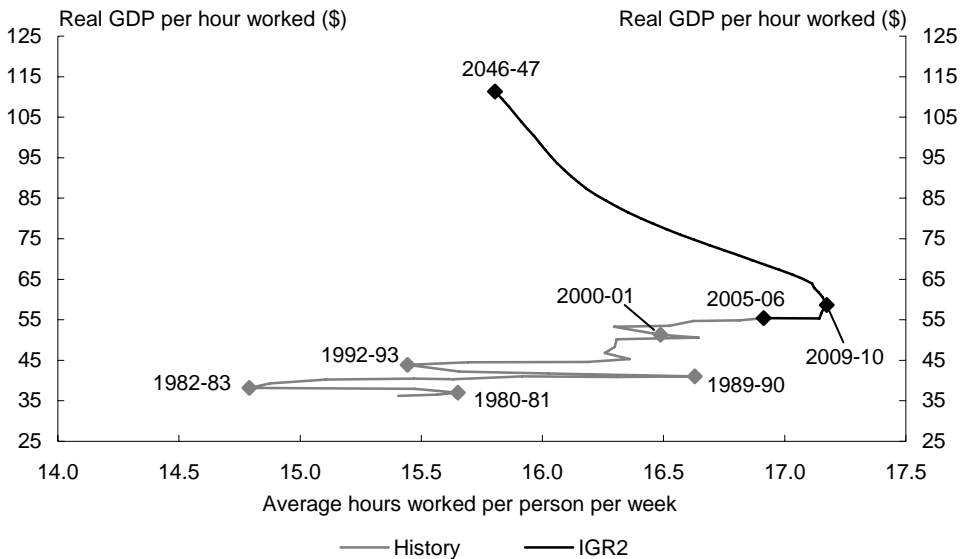
Chart 20 extends Chart 1 presented at the beginning of this statement by adding Australia's projected labour utilisation and productivity over the next 40 years to 2046-47. As the historical segment (up to 2005-06) of the chart shows, there has been a general north easterly movement of the line, reflecting generally rising labour utilisation and productivity growth. The product of labour utilisation and productivity at each point on the line gives a measure of GDP per capita. The line represents Australia's path of economic growth in GDP per capita over time.

Statement 4: Australia's Labour Force Utilisation

Increases in labour utilisation are projected to continue from 2005-06 to around the end of the decade, reflecting the continuation of the rise in the proportion of the working age population. By 2009-10, Australia will have reached its demographic 'sweet spot', where the dependency ratio is at its lowest level.

From the beginning of the 2010s the dependency ratio is projected to rise, reflecting mainly the retirement of the baby boomer generation. This will reduce the proportion of the traditional working age population and consequently reduce labour utilisation. By 2046-47, labour utilisation is projected to have declined to levels experienced in the mid-1990s.

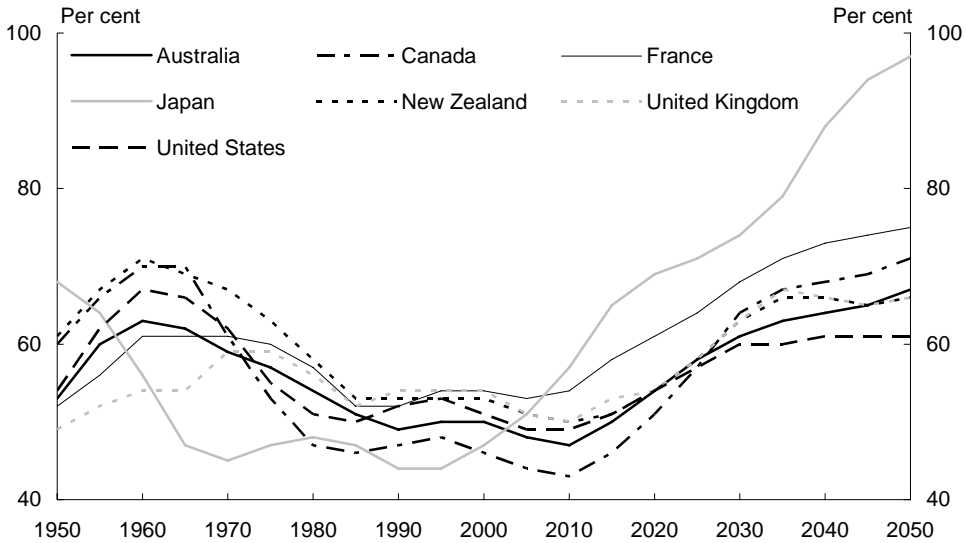
Chart 20: Labour utilisation and productivity



Source: Australian Bureau of Statistics and Treasury calculations.

Implicit in this projection is the future impact of current policy settings – the bundle of macroeconomic and microeconomic reforms, including labour market reform, that have been introduced over the years. The projected decline in labour utilisation makes it more difficult for Australia to achieve strong economic growth and necessarily places greater reliance on productivity to drive economic growth.

Although labour utilisation is projected to decline, the impact on Australia is much less severe than for other advanced economies. As Chart 21 shows, the demographic 'sweet spot' is relatively deep for Australia (deeper than for France, UK, New Zealand and the US). Also, the rise in Australia's dependency ratio beyond this decade is lower than for Japan, France, and Canada and similar to New Zealand and the UK. The implication is that the economic adjustment and the consequent policy task is more severe for other advanced economies than it is for Australia.

**Chart 21: International dependency ratios**

Source: United Nations 2006 Revision Population Database, medium variant.

The *Intergenerational Report 2007* identified that significant progress has been made since the first Intergenerational Report to arrest the backward trend in Australia's projected labour utilisation. The improvements are due mainly to higher projected participation rates of older workers and higher levels of skilled migration. These improvements have been large enough to more than offset negative impacts on labour utilisation arising from lower mortality rates and higher birth rates. They have shifted the path of economic growth in Chart 20 in an easterly direction relative to where it was in the previous Intergenerational Report, whilst maintaining the movement northward reflecting the contribution of productivity to economic growth. The challenge is to maintain these improving trends.

In broad terms, best practice labour market outcomes involve policy priorities for (i) ensuring that the labour market is flexible so that the existing labour force remains fully utilised and allocated to its most productive uses as the economy continues to respond to demographic and other change and (ii) expanding the supply of labour.

It is widely recognised (OECD 2006a) that Australia has a robust macroeconomic policy framework that has bolstered the economy's stability and reduced uncertainty. The priority is to continue to make timely adjustments within this framework in response to changing economic conditions. The broad thrust of existing labour market policy is to provide flexibility so that the economy is able to adjust quickly to internal and external shocks and shift resources to areas of new comparative advantage and, in so doing, provide opportunity for those who want employment to find employment and to reward effort. In terms of Chart 20, the path of economic growth is likely to be more stable relative to historical trends.

#### *Statement 4: Australia's Labour Force Utilisation*

In an economy approaching full capacity utilisation, all activity, including of governments, that commands additional real resources without at the same time expanding supply capacity must impose a cost. Employment creation under such economic conditions essentially requires an increase in labour force utilisation. This may come about, for example, through raising the labour force attachment of older workers, providing assistance for people with disabilities to enter employment, or employment of Indigenous Australians who would otherwise face a life of passive welfare dependency. Another avenue is to increase the size of the labour market through immigration of suitably skilled workers. In terms of Chart 20, the path of economic growth would move in an easterly direction, raising GDP per capita for any given level of productivity.

Measures in the 2007-08 Budget continue the series of initiatives over recent years to promote participation and, thereby, higher labour utilisation. They will boost incentives to work in a number of ways.

Among the changes to the personal income tax system are increases to the 30 per cent, 40 per cent and 45 per cent thresholds and an increase in the Low Income Tax Offset. These changes will increase the returns from working. In particular, the increase in the 30 per cent threshold from \$25,001 to \$30,001 is likely to have a strong impact on participation, given the large number of people affected and the higher labour supply responsiveness of workers on lower incomes.

A high quality education system is crucial to enhancing the skills and productive capacity of Australia's young people and is an essential building block of economic growth prospects.

This budget includes a comprehensive package of measures to improve education outcomes across the university, vocational and school systems. A key component is the establishment of a new, perpetual Higher Education Endowment Fund (HEEF) with an initial investment of \$5 billion funded from the 2006-07 surplus. This significant investment will broadly double the existing financial investments and endowments accumulated in the university sector. The earnings from this endowment will be distributed to institutions on a competitive basis annually to use for capital works and research facilities. The Budget also includes initiatives to promote the flexibility and diversity of the higher education sector, increase assistance for vocational education and training students, and enhance high quality teaching and learning in Australian schools (see Budget Statement 1 for further details).

As noted above, reductions in the cost of child care will encourage increased female labour force participation. The 10 per cent increase in the hourly rate of Child Care Benefit, included in the 2007-08 Budget, will provide a boost to participation. Furthermore, the new arrangements for payment of the Child Care Tax Rebate, by bringing the timing of the rebate closer to the time when child care is used, will sharpen the participation incentives provided by this component of child care assistance.

## CONCLUSION

This statement has illustrated the remarkable performance of the Australian economy and, in particular, the labour market. Across a broad range of indicators, Australia's economic credentials, including its labour force utilisation, have been impressive. Unemployment rates are at historic lows, employment growth has been high and Australia's participation rate has increased and is well above the OECD average.

There are a number of factors which are important in explaining the strong performance of the labour market. These affect both the demand and supply of labour and include monetary and fiscal policies to maintain macroeconomic stability as well as ongoing economic reform initiatives in the areas of taxation, welfare, labour markets, education and training and immigration.

However, Australia cannot rest on past success. A number of challenges are on the horizon. In particular, in terms of labour market participation, the *Intergenerational Report 2007* highlights the impact the ageing of the population will have on reducing Australia's overall participation rate. In addition, the Productivity Commission has highlighted Australia's relatively low levels of participation for certain key cohorts (particularly, prime aged males and females of child bearing age).

For Australia to maintain its impressive economic performance and rates of economic growth into the future there needs to be a continuous focus on maintaining an economic environment which provides the ways and means of improving labour market utilisation. The Productivity Commission estimates that if Australia were to achieve the best practice participation levels of OECD countries, the number of workers would increase by around 600,000, or 5.7 per cent of the current workforce.

While this statement has shown that improving Australia's labour utilisation rate will be important in maintaining strong economic growth, it is only part of the story. As outlined in the beginning of this statement, the other key source of continuing growth in per capita incomes is productivity. Given the demographic trends outlined in the *Intergenerational Report 2007*, and the trends outlined in this statement, Australia needs to maintain the current policy thrust to get best labour market outcomes while at the same time continuing with the ongoing task of improving productivity performance. The combination of these factors provides the greatest prospect for continuing growth in living standards in the long term.

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# STATEMENT 5: REVENUE

This statement contains details of the estimates of Australian Government revenue.

The revenue estimates have been revised up since the *Mid-Year Economic and Fiscal Outlook 2006-07* (MYEFO), mainly because of stronger growth in employment and corporate profits. The Government will provide additional personal tax cuts of \$31.5 billion over four years.

Information about GST revenue is provided in Budget Paper No. 3, *Federal Financial Relations 2007-08*.

<b>Overview .....</b>	<b>5-3</b>
<b>Variations in the revenue estimates since the 2006-07 Budget .....</b>	<b>5-3</b>
<b>Estimates of revenue .....</b>	<b>5-7</b>
Total revenue .....	5-7
Revenue estimates by revenue head .....	5-9
<b>Appendices</b>	
Appendix A: Revenue and receipts forward estimates .....	5-19
Appendix B: Changes since MYEFO .....	5-21
Appendix C: Revenue and receipts history and forecasts .....	5-25
Appendix D: Description of the revenue heads.....	5-35
Appendix E: Taxation revenue recognition .....	5-45
Appendix F: Net tax thresholds .....	5-49
Appendix G: Australia's tax system.....	5-50
Appendix H: Tax expenditures .....	5-58



# STATEMENT 5: REVENUE

## OVERVIEW

Relative to the *Mid-Year Economic and Fiscal Outlook 2006-07* (MYEFO), total revenue for 2007-08 is expected to be higher, with stronger growth in taxation from individual and company income and superannuation funds. The underlying growth in taxation revenue has been partially offset by policy changes in this budget. Personal income tax cuts of \$31.5 billion over four years will commence on 1 July 2007. These tax cuts are in addition to those announced in the 2005-06 and 2006-07 Budgets.

Revenue estimates for 2006-07 and 2007-08, together with projections for the period from 2008-09, are provided in Table 1.

**Table 1: Total Australian Government general government revenue<sup>(a)</sup>**

	Actual	Estimates		Projections		
	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
<b>Total taxation revenue (\$b)</b>	<b>206.8</b>	<b>220.5</b>	<b>231.1</b>	<b>244.1</b>	<b>256.6</b>	<b>267.3</b>
Real growth on						
previous year%(b)	1.5	1.8	2.3	4.4	4.0	1.9
Per cent of GDP	21.4	21.3	21.1	21.3	21.5	21.3
<b>Non-taxation revenue (\$b)</b>	<b>15.1</b>	<b>15.1</b>	<b>15.7</b>	<b>16.7</b>	<b>18.0</b>	<b>20.1</b>
Real growth on						
previous year%(b)	15.5	-4.5	1.6	5.0	6.7	9.2
Per cent of GDP	1.6	1.5	1.4	1.5	1.5	1.6
<b>Total revenue (\$b)</b>	<b>221.9</b>	<b>235.5</b>	<b>246.8</b>	<b>260.7</b>	<b>274.6</b>	<b>287.3</b>
Real growth on						
previous year%(b)	2.4	1.4	2.2	4.5	4.2	2.4
Per cent of GDP	23.0	22.8	22.5	22.8	23.1	22.9

(a) The revenue estimates in this statement exclude GST revenue, which is collected by the Australian Government and provided in full to the States and Territories. A discussion of GST revenue is provided in Budget Paper No. 3, *Federal Financial Relations 2007-08*.

(b) Real growth is calculated using the non-farm gross domestic product (GDP) deflator.

Total revenue as a percentage of GDP is expected to decrease in 2007-08 to 22.5 per cent of GDP, before returning to around its 2006-07 level by the end of the forward estimates.

## VARIATIONS IN THE REVENUE ESTIMATES SINCE THE 2006-07 BUDGET

Table 2 is a reconciliation of this budget's revenue estimates with those at the 2006-07 Budget and the 2006-07 MYEFO.

**Table 2: Reconciliation of total Australian Government general government revenue estimates from the 2006-07 Budget and the 2006-07 MYEFO**

	Estimates		Projections	
	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m
<b>Revenue at 2006-07 Budget</b>	<b>231,662</b>	<b>240,671</b>	<b>252,078</b>	<b>265,603</b>
<b>Changes between 2006-07 Budget and MYEFO</b>				
Effect of policy decisions	-202	-1,609	-1,608	-1,753
Effect of parameter and other variations	424	3,664	5,131	4,532
<b>Total variations</b>	<b>222</b>	<b>2,055</b>	<b>3,523</b>	<b>2,779</b>
<b>Revenue at 2006-07 MYEFO</b>	<b>231,885</b>	<b>242,726</b>	<b>255,601</b>	<b>268,383</b>
<b>Changes between MYEFO and 2007-08 Budget</b>				
Effect of policy decisions	-16	-5,581	-8,221	-8,497
Effect of parameter and other variations	3,670	9,615	13,345	14,728
<b>Total variations</b>	<b>3,654</b>	<b>4,034</b>	<b>5,124</b>	<b>6,231</b>
<b>Revenue at 2007-08 Budget</b>	<b>235,539</b>	<b>246,761</b>	<b>260,726</b>	<b>274,614</b>

**Total revenue for 2006-07**

Since MYEFO, estimated total revenue for 2006-07 has been revised up by \$3.7 billion, largely reflecting stronger than anticipated growth in company profits and employment, and strong capital gains realised by superannuation funds.

**Total revenue for 2007-08**

Since MYEFO, total revenue for 2007-08 has been revised up by \$4.0 billion. The upward revision flows-on from higher estimates in 2006-07 for individuals and companies and also incorporates the stronger outlook in 2007-08 for employment and company profits.

The Government's decision to provide additional personal tax relief has partly offset the upward revisions in total revenue.

**Effect of policy decisions**

Policy decisions since the 2006-07 MYEFO are expected to reduce taxation revenue by around \$5.6 billion in 2007-08 and around \$31.1 billion over the forward years.

The Government's decision to provide additional personal income tax relief will reduce revenue by \$5.3 billion in 2007-08, and \$31.5 billion over the forward estimates period.

- From 1 July 2007, the 30 per cent threshold will increase to \$30,001. In addition, the low income tax offset will increase from \$600 to \$750 and will begin to phase-out from \$30,000.
- From 1 July 2008, the 40 per cent threshold will increase to \$80,001 and the 45 per cent threshold will increase to \$180,001. For 2008-09, the top marginal tax rate will apply to only around 2 per cent of taxpayers.

The budget also contains a number of other major policy decisions:

- Increasing the dependent spouse rebate from \$1,655 to \$2,100 with effect from 1 July 2007, at a cost to revenue of \$425 million over the forward estimates.
- Not proceeding with the Review of Business Taxation recommendation relating to the taxation of finance leasing which will reduce revenue over the forward estimates period by \$260 million.
- Relaxing the beneficial ownership provisions of the premium 175 per cent research and development (R&D) tax concession, to allow certain entities to claim deductions for their incremental R&D expenditure where the resulting intellectual property is held overseas. The measure is expected to have a cost to revenue of \$200 million over the forward estimates period.
- Removing the \$100 million cap on the Same Business Test and improving the company loss recoupment rules, at a cost to revenue of \$175 million over the forward estimates period.
- Increasing the Medicare levy low income thresholds from \$16,284 to \$16,740 for individuals and from \$27,478 to \$28,247 for families, with effect from 1 July 2006. This measure will have a cost to revenue of \$150 million over the forward estimates period.
- Aligning the eligibility criteria for taxpayers to pay Pay-As-You-Go (PAYG) tax instalments annually with the criteria for paying goods and services tax on an annual basis. This measure is expected to have a cost to revenue of \$140 million over the forward estimates period.
- Converting the Child Care Tax Rebate to a direct payment administered through the Department of Families, Community Services and Indigenous Affairs, which will increase revenue collections by \$1,430 million over the forward estimates period. This increase in revenue is more than offset by the increased expenditure under this measure.
- Providing the Australian Taxation Office with \$125.7 million over four years to help reduce the existing stock of taxation debt and outstanding superannuation guarantee charge payments owed by employers. The enhanced debt recovery is expected to result in additional revenue collection of \$140 million over four years.
- Allowing investors in forestry managed investment schemes to trade both existing and future interests is expected to result in additional revenue of \$140 million over four years.

## Statement 5: Revenue

A detailed description of the policy decisions is provided in Budget Paper No. 2, *Budget Measures 2007-08*. A summary of revenue policy decisions since the 2006-07 MYEFO is provided in Table 3.

**Table 3: Revenue policy decisions since the 2006-07 MYEFO**

	2007-08 \$m	2008-09 \$m	2009-10 \$m	2010-11 \$m	Total \$m
Personal income tax cuts	-5,305.0	-8,350.0	-8,785.0	-9,050.0	-31,490.0
Personal income tax – increase the dependent spouse rebate	-20.0	-130.0	-135.0	-140.0	-425.0
Finance leasing – taxation treatment to remain unchanged	-20.0	-65.0	-75.0	-100.0	-260.0
Research and development tax concession – extension of the premium 175 per cent concession to subsidiaries of multinational enterprises	-50.0	-50.0	-50.0	-50.0	-200.0
Company loss recoupment rules – same business test and technical amendments	-15.0	-40.0	-50.0	-70.0	-175.0
Personal income tax – increasing the Medicare levy low-income thresholds	-60.0	-30.0	-30.0	-30.0	-150.0
PAYG instalments paid annually when voluntarily registered for GST	-	-100.0	-20.0	-20.0	-140.0
Debt collection enhancement – reducing taxation debt and outstanding superannuation guarantee charge payments	5.0	45.0	45.0	45.0	140.0
Forestry managed investment schemes statutory deduction for investments	-	60.0	60.0	20.0	140.0
Child Care Tax Rebate – conversion to a direct payment	-	425.0	475.0	530.0	1,430.0
Other policy decisions	-115.7	13.9	68.4	79.4	46.0
<b>Total revenue policy decisions</b>	<b>-5,580.7</b>	<b>-8,221.1</b>	<b>-8,496.7</b>	<b>-8,785.6</b>	<b>-31,084.0</b>

### Effect of parameter and other variations

In addition to new policy decisions, revisions to expected revenue may be driven by recent economic data and tax collections, and the updated economic outlook.

Since MYEFO, parameter and other variations have increased estimated revenue by \$3.7 billion in 2006-07 and \$9.6 billion in 2007-08.

The increased strength in revenue in 2006-07 largely stems from stronger than expected economic outcomes in the labour market and for company profits. Revenue for 2006-07 is expected to be 6.1 per cent above the 2005-06 level. This compares to MYEFO expectations of 4.5 per cent. The increased strength in company profits, although moderating, is expected to continue through 2007-08, further raising revenue.

Looking ahead, economic conditions remain supportive of continued strength in underlying revenue, particularly through compensation of employees and the realisation of capital gains by investors.

Further detail on how the revised outlook for the economy has affected individual revenue heads over the forward estimates is provided later in this statement. An analysis of the sensitivity of the taxation revenue estimates to changes in the major economic parameters is provided in Statement 2.

## **ESTIMATES OF REVENUE**

### **Total revenue**

Total revenue for 2007-08 is expected to increase by \$11.2 billion, 4.8 per cent higher than estimated revenue for 2006-07. Of this, taxation revenue is expected to increase by 4.8 per cent (\$10.6 billion) and non-taxation revenue is expected to increase by 4.1 per cent (\$619 million).

The increase has resulted primarily from higher estimated revenue from companies (\$6.3 billion) and individuals (\$2.2 billion).

The revenue estimates for 2006-07 and 2007-08 are constructed using the outcomes for 2005-06, information on revenue collections in the year to date and the revised economic forecasts for 2006-07 and 2007-08. Revenue estimates for the projection years – 2008-09 to 2010-11 – are based mainly on underlying trends in economic parameters and take no account of cyclical influences on economic activity. As at the 2005-06 and 2006-07 Budgets, key commodity prices are assumed to return to their long-run average level over the first two projection years. For a discussion of this technical assumption see Budget Paper No. 1, *Budget Strategy and Outlook 2006-07*, page 3-31.

The revenue estimates for 2006-07 and 2007-08 are provided in Table 4. Descriptions of the revenue heads are provided in Appendix D.

**Table 4: Australian Government general government revenue**

	Estimates		Change on 2006-07	
	2006-07 \$m	2007-08 \$m	\$m	%
<i>Income taxation</i>				
Individuals and other withholding taxes				
Gross income tax withholding	107,710	111,360	3,650	3.4
Gross other individuals	26,820	27,560	740	2.8
less: Refunds	17,140	19,360	2,220	13.0
Total individuals and other withholding taxation	117,390	119,560	2,170	1.8
Fringe benefits tax	3,850	4,110	260	6.8
Superannuation funds				
Contributions and earnings	7,190	8,210	1,020	14.2
Surcharge	270	90	-180	-66.7
Total superannuation taxation	7,460	8,300	840	11.3
Company tax	58,270	64,580	6,310	10.8
Petroleum resource rent tax	1,560	1,980	420	26.9
<b>Income taxation revenue</b>	<b>188,530</b>	<b>198,530</b>	<b>10,000</b>	<b>5.3</b>
<i>Excise and customs</i>				
Excise duty				
Petrol	7,130	7,070	-60	-0.8
Diesel	6,210	6,370	160	2.6
Other fuel products	810	980	170	21.0
Crude oil	530	310	-220	-41.5
Beer	1,810	1,880	70	3.9
Potable spirits	870	950	80	9.2
Tobacco	5,370	5,390	20	0.4
Total excise duty revenue	22,730	22,950	220	1.0
Customs duty				
Textiles, clothing and footwear	920	1,000	80	8.7
Passenger motor vehicles	1,250	1,340	90	7.2
Excise-like goods	2,160	2,270	110	5.1
Other imports	1,500	1,580	80	5.3
less: Refunds and drawbacks	230	230	0	0.0
Total customs duty revenue	5,600	5,960	360	6.4
<b>Excise and customs revenue</b>	<b>28,330</b>	<b>28,910</b>	<b>580</b>	<b>2.0</b>
<i>Other taxation</i>				
Wine equalisation tax	670	680	10	1.5
Luxury car tax	350	370	20	5.7
Agricultural levies	598	586	-11	-1.9
Other taxes	1,989	1,993	4	0.2
<b>Other taxation revenue</b>	<b>3,606</b>	<b>3,629</b>	<b>23</b>	<b>0.6</b>
<b>Taxation revenue</b>	<b>220,466</b>	<b>231,069</b>	<b>10,603</b>	<b>4.8</b>
<i>Non-taxation</i>				
Sales of goods and services	5,008	5,220	212	4.2
Dividends	2,774	2,966	192	6.9
Interest received	3,841	4,147	306	8.0
Other non-taxation revenue	3,449	3,357	-91	-2.6
<b>Non-taxation revenue</b>	<b>15,072</b>	<b>15,691</b>	<b>619</b>	<b>4.1</b>
<b>Total revenue</b>	<b>235,539</b>	<b>246,761</b>	<b>11,222</b>	<b>4.8</b>



## Revenue estimates by revenue head

### Income taxation revenue

#### Individuals and other withholding taxation

Estimated revenue from individuals for 2006-07, 2007-08 and the projection years is provided in Table 5. Estimated revenue from individuals in 2007-08 is expected to increase by \$2.2 billion (1.8 per cent), reflecting solid growth in most forms of income, including wages, personal investment income (see Box 5.1) and unincorporated business income. The Government's decision to provide additional personal tax relief has partially offset the upward revisions.

**Table 5: Individuals and other withholding taxation revenue**

	Actual	Estimates		Projections		
	2005-06 \$m	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m	2010-11 \$m
Individuals and other withholding taxes						
Gross income tax withholding	103,811	107,710	111,360	118,040	127,020	136,590
Gross other individuals	25,859	26,820	27,560	28,860	30,200	31,050
<i>less: Refunds</i>	15,239	17,140	19,360	21,190	22,530	23,980
<b>Total</b>	<b>114,431</b>	<b>117,390</b>	<b>119,560</b>	<b>125,710</b>	<b>134,690</b>	<b>143,660</b>
<i>Includes Medicare levy(a) revenue of:</i>	6,525	7,290	7,820	8,290	8,820	9,340

(c) Medicare levy for 2005-06 is an estimate.

#### Gross income tax withholding

Gross income tax withholding revenue is expected to increase by \$3.7 billion (3.4 per cent) in 2007-08, reflecting solid growth in average wages and moderating growth in employment, partially offset by additional personal income tax relief.

#### Gross other individuals

Gross revenue from other individuals is expected to increase by \$740 million (2.8 per cent) in 2007-08. This reflects strong growth in capital gains and moderate growth in unincorporated business income, partly offset by the impact of the additional personal income tax relief announced in the 2006-07 and 2007-08 Budgets.

#### Income tax refunds for individuals

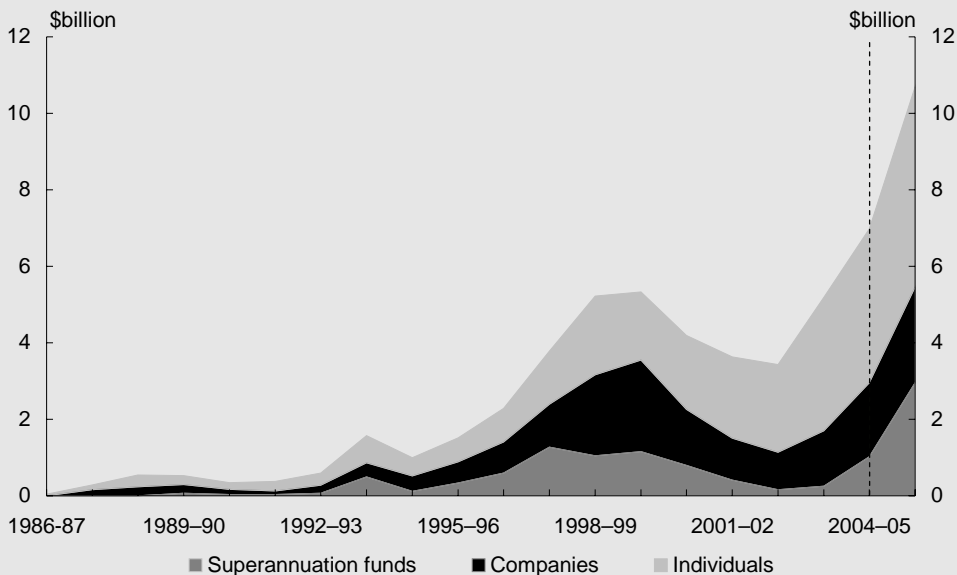
Refunds for individuals are expected to increase by \$2.2 billion (13.0 per cent) in 2007-08. Refunds are generally related to movements in revenue from gross income tax withholding and gross other individuals in the previous year. Strength in labour market outcomes throughout 2006-07 will increase refunds in 2007-08 as part-year employees will tend to have more tax withheld than they are required to pay on assessment. In addition, the estimate for 2007-08 incorporates the effects of changes to the low income tax offset announced in the 2006-07 Budget.

**Box 5.1: Capital gains tax**

Capital gains tax (CGT) is not a separate revenue head. It is a large, increasingly important and volatile component of gross other individuals, refunds, companies and superannuation funds heads of revenue.

Net CGT payable has grown from \$43 million in 1986-87 to \$7.0 billion (0.8 per cent of GDP) in 2004-05. Partial data from 2005-06 tax returns indicate that the recent strong growth has continued, with net CGT estimated to exceed \$10 billion.

**Chart 1: Tax payable on net capital gains subject to tax by entity type<sup>(a)</sup>**  
Income-year basis



(a) Tax payable on net capital gains is estimated (based on entity type and tax rates).  
Source: ATO *Taxation Statistics*, Commissioner of Taxation annual reports and Treasury estimates.

Generally, capital gains from disposals of pre-CGT assets (assets acquired before 20 September 1985) are exempt from tax. Since its introduction, the tax base, generated by the transfer and consequent ungrandfathering of pre-CGT assets and the creation of new assets, has been expanding. This contributed to strong growth in CGT for the first half of the series and may still be having a small influence.

From 1985 to 1999, capital gains were taxed at the individual taxpayer’s full marginal rate on gains above an indexed cost base. For individuals the maximum rate was 48.5 per cent in 1999. From 1999 the Government introduced a discount of 50 per cent on nominal gains for individuals where assets were held for longer than a year, meaning that the marginal tax rate effectively halved. This meant for individuals, the maximum rate fell to 24.25 per cent and to 23.25 per cent from 1 July 2006. For superannuation funds, the 1999 reforms resulted in the effective rate falling from 15 per cent to 10 per cent.

**Box 5.1: Capital gains tax (continued)**

In broad terms, capital gains arise from the difference between the sale price and cost of assets. Consequently, movements in capital gains have a natural sensitivity to movements in prices. The growth in CGT during the late 1990s was underpinned by strong growth in share prices. From 2000-01 to 2002-03 growth in share prices slowed while house prices increased markedly. In recent years, strong growth in share prices has again led to strong growth in CGT.

The rate at which assets are transferred is also an important determinant of CGT as the tax is levied on realised gains. This feature allows taxpayers some greater choice over when to incur CGT compared with many other taxes. An increase in the rate of asset turnover leads to an increase in the level of realised capital gains (increased turnover effectively brings forward the recognition of accrued gains).

**Medicare levy**

Revenue from the Medicare levy is expected to increase by \$530 million in 2007-08. Movements in revenue from the Medicare levy are generally consistent with growth in personal taxable income.

**Fringe benefits tax**

Estimated revenue from fringe benefits tax for 2006-07, 2007-08 and the projection years is provided in Table 6.

**Table 6: Fringe benefits tax revenue**

	Actual	Estimates		Projections		
	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
	\$m	\$m	\$m	\$m	\$m	\$m
Fringe benefits tax	4,084	3,850	4,110	4,280	4,510	4,730

Revenue from fringe benefits tax is expected to increase by \$260 million (6.8 per cent) in 2007-08, reflecting solid labour market expectations.

**Superannuation funds**

Estimated revenue from superannuation funds for 2006-07, 2007-08 and the projection years is provided in Table 7.

**Table 7: Superannuation funds revenue**

	Actual	Estimates		Projections		
	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
	\$m	\$m	\$m	\$m	\$m	\$m
Superannuation funds						
Contributions and earnings	5,416	7,190	8,210	9,720	10,320	10,820
Surcharge	1,289	270	90	10	10	20
<b>Total</b>	<b>6,705</b>	<b>7,460</b>	<b>8,300</b>	<b>9,730</b>	<b>10,330</b>	<b>10,840</b>

### Superannuation funds taxation

Taxation revenue from superannuation funds is expected to increase by \$1.0 billion (14.2 per cent) in 2007-08, underpinned by solid labour market expectations and earnings growth. Superannuation funds earnings growth is expected to be stronger than previously estimated, largely because of higher than anticipated capital gains following continued strength in the share market.

### Superannuation surcharge

Revenue from the superannuation surcharge is expected to decrease by \$180 million in 2007-08. While the abolition of the surcharge extinguishes future liabilities from accruing, allowance has been made in relation to the identification of liabilities which accrued prior to 1 July 2005.

### Company and other related income taxation

Estimated revenue from companies for 2006-07, 2007-08 and the projection years is provided in Table 8.

**Table 8: Company and other related income taxation revenue**

	Actual	Estimates		Projections		
	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
	\$m	\$m	\$m	\$m	\$m	\$m
Company tax	48,987	58,270	64,580	68,580	70,510	71,830
Petroleum resource rent tax	1,991	1,560	1,980	2,450	3,060	2,210
<b>Total</b>	<b>50,978</b>	<b>59,830</b>	<b>66,560</b>	<b>71,030</b>	<b>73,570</b>	<b>74,040</b>

### Company income taxation

Company income taxation revenue is expected to increase by \$6.3 billion (10.8 per cent) in 2007-08. The increase largely reflects ongoing strength in company profits, in particular in the mining and finance sectors.

Company income taxation revenue over the projection years, 2008-09 to 2010-11, incorporates a technical assumption that the prices of key non-rural commodities will return to long-run average levels over the first two years of the projection period. This is broadly consistent with aggregate non-rural commodity prices retracing around 60 per cent of their recent gains by the end of the projection period.

### Box 5.2: Measuring the effective company tax rate

Comparisons of company tax over time may be made by constructing an effective tax rate (ETR), defined as the ratio of tax collections to a relevant amount of income. Commonly used measures of the ETR are conceptually flawed and misleading. Better measures show that the company ETR has been declining since the mid-1990s.

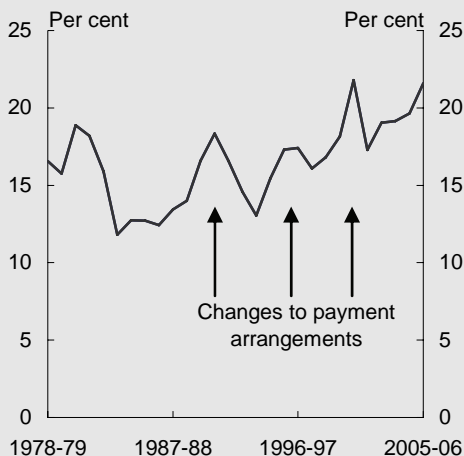
A commonly used measure of the company ETR is the ratio of company tax receipts to corporate gross operating surplus (GOS), the measure of company profits in the *Australian System of National Accounts*. According to this simple measure the company ETR has been increasing since the mid-1980s, despite a series of reductions to the statutory tax rate from 49 per cent to 30 per cent – Chart 2.

The company ETR spiked in several years, most notably in 1989-90 and 2000-01, which correspond to changes in company tax payment arrangements. In the 1980s company tax was generally paid in the year after the income was earned, whereas now company tax is mostly paid in the same year the income is earned. This change, which occurred in several steps, has sometimes resulted in companies making tax payments for two different years in the one transitional year, producing the spikes in the ETR.

The volatility caused by changes to payment arrangements can be removed if company tax is allocated to the year in which the relevant income was earned – Chart 3.

**Chart 2: Company tax ETR**

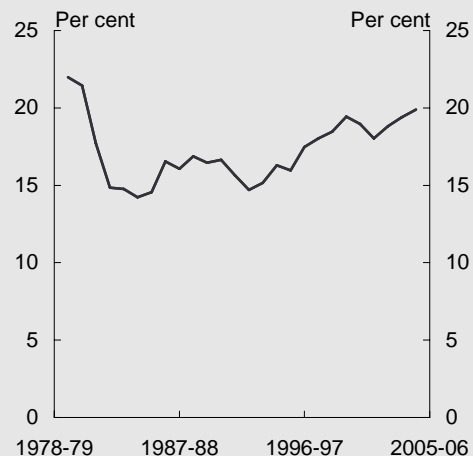
Cash basis



Source: ABS cat. no. 5206.

**Chart 3: Company tax ETR**

Income-year basis



Source: ABS cat. no. 5206, ATO *Taxation Statistics* and Treasury estimates.

**Box 5.2: Measuring the effective company tax rate (continued)**

Although the income-year basis for allocating tax provides a better measure of the company ETR, there are major differences between GOS and company profits that make GOS an inappropriate measure of income for constructing an ETR. GOS is income of all incorporated business enterprises related to the production of goods and services. It is the appropriate measure of the corporate contribution to Australia's Gross Domestic Product (GDP). But GOS includes some items that are irrelevant for tax purposes and does not include several large income and expense items that contribute to corporate profits and are relevant for tax purposes. GOS can be converted to a more appropriate income base for comparing with tax by making four adjustments.

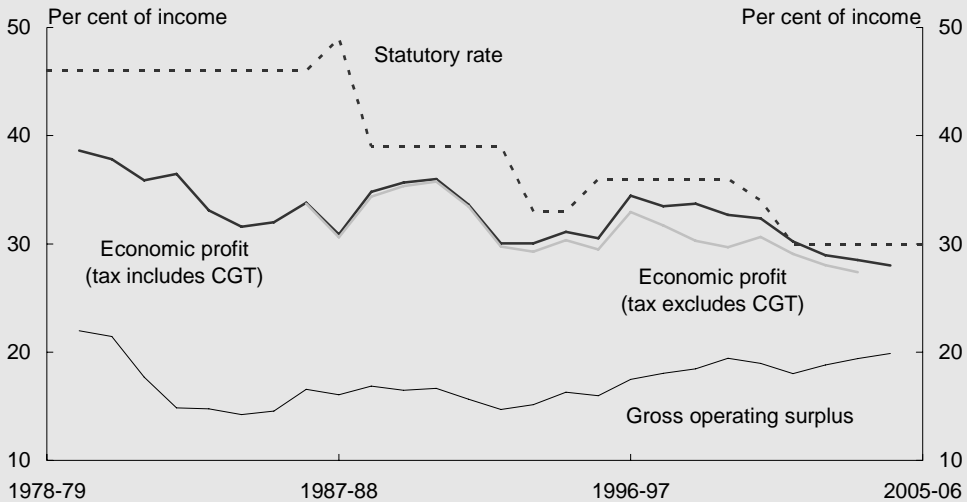
- GOS includes income from government trading enterprises that are not subject to company income tax. Many of these enterprises, such as Telstra and some state utilities, are now subject to income tax. The percentage of GOS not subject to income tax has fallen from around 20 per cent in the mid-1980s to around 5 per cent in 2005-06. Leaving this income in the calculation of the ETR tends to depress the ETR in the 1980s compared to recent years. To construct a better measure of the ETR, this income should be removed from GOS.
- GOS is measured gross of depreciation expenses, whereas company profits are net of these. Depreciation should be subtracted from GOS before constructing an ETR. This calculation will lower income and thus generally raise the ETR.
- As part of the international *System of National Accounts* (1993), the Australian Bureau of Statistics splits income from financial intermediation – which is the majority of income earned by banks as interest payments on borrowing and lending – into two components. One component is assigned as income from the provision of financial services and the remainder is assigned as 'pure' interest flows. Only the first component is included in the calculation of GOS (and GDP). Corporate profit includes both components. The income from 'pure' interest flows should be added to GOS before constructing an ETR. This calculation will decrease the ETR, but by varying amounts as interest rates and levels of debt change over time.
- Income resulting from the increase in value of held inventories is not included in GOS. This income was much higher in the 1980s compared to recent years, because of higher inflation and a greater propensity to hold stocks. Adding this income to GOS will tend to lower slightly the ETR, more in the 1980s than in recent years.

These four adjustments to GOS result in a new measure of corporate income (here called 'economic profit'). This is a more appropriate income base for the construction of a company ETR.

**Box 5.2: Measuring the effective company tax rate (continued)**

Since the 1980s, the ETR based on economic profit has tended to move with changes to the statutory rate – Chart 4. The ETR has tended to converge to the statutory rate in recent years, as tax policy has broadened the tax base while lowering the statutory rate. The net effect has been a trend decline in the ETR since the mid-1990s.

**Chart 4: Measures of the effective company tax rate**  
(Income-year basis)



In addition, GOS does not include income from capital gains. Conceptually, a measure of the ETR should include capital gains in the income. It is not possible to construct a time-series for corporate capital gains because income from the sale of assets purchased before 1986 is not subject to capital gains tax (CGT) and was not reported. Capital gains have not been added to income and so the company ETR is overstated since 1986-87, most significantly in recent years.

Although it is not possible to include capital gains income into the measure of the ETR, the effect of capital gains on the ETR can be approximately gauged by removing CGT from the ETR. This is shown in Chart 4.

The methodology used to construct this company ETR has also been used to refine further company tax forecasting methodology. After allowing for rate and base changes, company tax has been growing in line with economic profit.

Statement 5: Revenue

Petroleum resource rent tax

Estimated revenue from the petroleum resource rent tax is expected to increase by \$420 million (26.9 per cent) in 2007-08, reflecting higher expected profitability of offshore petroleum projects from higher oil prices (measured in Australian dollars).

**Excise and customs revenue**

Estimates for 2006-07, 2007-08 and the projection years are provided in Table 9 for excise and customs revenue.

**Table 9: Excise and customs revenue**

	Actual	Estimates		Projections		
	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
	\$m	\$m	\$m	\$m	\$m	\$m
Excise duty						
Petroleum and other fuel products						
Petrol	7,254	7,130	7,070	6,990	7,040	7,140
Diesel	6,242	6,210	6,370	6,580	6,800	7,030
Other fuel products	215	810	980	1,130	1,270	1,450
Total	13,711	14,150	14,420	14,700	15,110	15,620
Crude oil	362	530	310	160	150	210
Other excise						
Beer	1,747	1,810	1,880	1,910	1,960	2,000
Potable spirits	811	870	950	1,050	1,150	1,240
Tobacco	5,296	5,370	5,390	5,410	5,420	5,430
Total	7,854	8,050	8,220	8,370	8,530	8,670
Total excise duty	21,927	22,730	22,950	23,230	23,790	24,500
Customs duty						
Textiles, clothing and footwear	832	920	1,000	1,060	830	590
Passenger motor vehicles	1,129	1,250	1,340	1,400	1,100	730
Excise-like goods	1,767	2,160	2,270	2,390	2,530	2,670
Other imports	1,620	1,500	1,580	1,680	1,790	1,910
less: Refunds and drawbacks	360	230	230	240	240	240
Total customs duty	4,988	5,600	5,960	6,290	6,010	5,660
<b>Total</b>	<b>26,914</b>	<b>28,330</b>	<b>28,910</b>	<b>29,520</b>	<b>29,800</b>	<b>30,160</b>

Excise duty

In 2007-08, revenue from excise duty on refined petroleum products is expected to increase by \$270 million (1.9 per cent), with excise on other fuel products expected to account for \$170 million of that increase (a growth rate of 21.0 per cent for those products). This reflects moderate growth in overall demand for fuels as well as continuing substitution from petroleum and diesel to other blended fuel products (such as petrol/ethanol and diesel/biodiesel blends).

Revenue from crude oil excise duty is expected to decrease by \$220 million (-41.5 per cent) in 2007-08, largely reflecting lower expected production in the relevant fields.



Other excise revenue is expected to increase by \$170 million (2.1 per cent) in 2007-08. Beer excise revenue is estimated to increase by \$70 million (3.9 per cent) reflecting growth in the market for premium beers, which are generally full strength. Excise revenue from other excisable beverages is expected to increase by \$80 million (9.2 per cent) with consumption of ready to drink products continuing to grow strongly. Estimated revenue from both tobacco and other spirits excise is expected to remain largely unchanged from 2006-07 levels.

#### Customs duty

Customs duty revenue is expected to increase by \$360 million in 2007-08, underpinned by growth in imports.

#### Other taxation revenue

Revenue estimates for 2006-07, 2007-08 and the projection years are provided in Table 10 for the wine equalisation tax, the luxury car tax, agricultural levies and other taxes.

**Table 10: Other taxation revenue**

	Actual	Estimates		Projections		
	2005-06 \$m	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m	2010-11 \$m
Wine equalisation tax	657	670	680	700	720	740
Luxury car tax	331	350	370	390	400	410
Agricultural levies	610	598	586	597	399	366
Other taxes	2,122	1,989	1,993	2,109	2,217	2,315
<b>Total</b>	<b>3,720</b>	<b>3,606</b>	<b>3,629</b>	<b>3,796</b>	<b>3,736</b>	<b>3,832</b>

Total other taxation revenue is estimated to increase by \$23 million in 2007-08.

Revenue from the wine equalisation tax and the luxury car tax is expected to increase by \$10 million and \$20 million respectively in 2007-08.

Revenue from agricultural levies and other taxes in 2007-08 is expected to be largely unchanged from 2006-07 levels.

#### Non-taxation revenue

Revenue estimates for 2006-07, 2007-08 and the forward years are provided in Table 11 for the various categories of non-taxation revenue. Item descriptions are in Appendix D.

**Table 11: Non-taxation revenue**

	Actual	Estimates		Projections		
	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
	\$m	\$m	\$m	\$m	\$m	\$m
Sales of goods and services	4,604	5,008	5,220	5,362	5,541	5,950
Dividends	4,387	2,774	2,966	3,832	3,944	4,035
Interest received	2,437	3,841	4,147	3,979	4,879	4,562
Other non-taxation revenue(a)	3,658	3,449	3,357	3,487	3,615	5,504
<b>Total</b>	<b>15,086</b>	<b>15,072</b>	<b>15,691</b>	<b>16,660</b>	<b>17,978</b>	<b>20,050</b>

(a) Includes all other non-taxation revenue collected by the Australian Government agencies.

Non-taxation revenue is expected to increase by \$619 million (4.1 per cent) in 2007-08 largely reflecting an increase in sales of goods and services primarily by the Department of Defence to other governments.

Interest and dividends revenue received are also forecast to increase due largely to the earnings of the Future Fund.

**APPENDIX A: REVENUE AND RECEIPTS FORWARD ESTIMATES****Table A1: Australian Government general government revenue (accrual basis)**

	Actual		Estimates		Projections	
	2005-06 \$m	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m	2010-11 \$m
<i>Income taxation</i>						
Individuals and other withholding taxes						
Gross income tax withholding	103,811	107,710	111,360	118,040	127,020	136,590
Gross other individuals	25,859	26,820	27,560	28,860	30,200	31,050
less: Refunds	15,239	17,140	19,360	21,190	22,530	23,980
Total individuals and other withholding taxation	114,431	117,390	119,560	125,710	134,690	143,660
Fringe benefits tax	4,084	3,850	4,110	4,280	4,510	4,730
Superannuation funds						
Contributions and earnings	5,416	7,190	8,210	9,720	10,320	10,820
Surcharge	1,289	270	90	10	10	20
Total superannuation taxation	6,705	7,460	8,300	9,730	10,330	10,840
Company tax	48,987	58,270	64,580	68,580	70,510	71,830
Petroleum resource rent tax	1,991	1,560	1,980	2,450	3,060	2,210
<b>Income taxation revenue</b>	<b>176,198</b>	<b>188,530</b>	<b>198,530</b>	<b>210,750</b>	<b>223,100</b>	<b>233,270</b>
<i>Excise and customs</i>						
Excise duty						
Petrol	7,254	7,130	7,070	6,990	7,040	7,140
Diesel	6,242	6,210	6,370	6,580	6,800	7,030
Other fuel products	215	810	980	1,130	1,270	1,450
Crude oil	362	530	310	160	150	210
Beer	1,747	1,810	1,880	1,910	1,960	2,000
Potable spirits	811	870	950	1,050	1,150	1,240
Tobacco	5,296	5,370	5,390	5,410	5,420	5,430
Total excise duty revenue	21,927	22,730	22,950	23,230	23,790	24,500
Customs duty						
Textiles, clothing and footwear	832	920	1,000	1,060	830	590
Passenger motor vehicles	1,129	1,250	1,340	1,400	1,100	730
Excise-like goods	1,767	2,160	2,270	2,390	2,530	2,670
Other imports	1,620	1,500	1,580	1,680	1,790	1,910
less: Refunds and drawbacks	360	230	230	240	240	240
Total customs duty revenue	4,988	5,600	5,960	6,290	6,010	5,660
<b>Excise and customs revenue</b>	<b>26,914</b>	<b>28,330</b>	<b>28,910</b>	<b>29,520</b>	<b>29,800</b>	<b>30,160</b>
<i>Other taxation</i>						
Wine equalisation tax	657	670	680	700	720	740
Luxury car tax	331	350	370	390	400	410
Agricultural levies	610	598	586	597	399	366
Other taxes	2,122	1,989	1,993	2,109	2,217	2,315
<b>Other taxation revenue</b>	<b>3,720</b>	<b>3,606</b>	<b>3,629</b>	<b>3,796</b>	<b>3,736</b>	<b>3,832</b>
<b>Taxation revenue</b>	<b>206,832</b>	<b>220,466</b>	<b>231,069</b>	<b>244,066</b>	<b>256,636</b>	<b>267,262</b>
<i>Non-taxation</i>						
Sales of goods and services	4,604	5,008	5,220	5,362	5,541	5,950
Dividends	4,387	2,774	2,966	3,832	3,944	4,035
Interest received	2,437	3,841	4,147	3,979	4,879	4,562
Other non-taxation revenue	3,658	3,449	3,357	3,487	3,615	5,504
<b>Non-taxation revenue</b>	<b>15,086</b>	<b>15,072</b>	<b>15,691</b>	<b>16,660</b>	<b>17,978</b>	<b>20,050</b>
<b>Total revenue</b>	<b>221,918</b>	<b>235,539</b>	<b>246,761</b>	<b>260,726</b>	<b>274,614</b>	<b>287,312</b>

**Table A2: Australian Government general government receipts (cash basis)**

	Actual	Estimates		Projections		
	2005-06 \$m	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m	2010-11 \$m
<i>Income taxation</i>						
Individuals and other withholding taxes						
Gross income tax withholding	103,120	107,000	110,690	117,320	126,240	135,730
Gross other individuals	24,895	25,740	26,620	27,830	29,110	29,910
less: Refunds	15,244	17,140	19,360	21,190	22,530	23,980
Total individuals and other withholding taxation	112,770	115,600	117,950	123,960	132,820	141,660
Fringe benefits tax	4,049	3,880	4,050	4,210	4,440	4,660
Superannuation funds						
Contributions and earnings	5,416	7,150	8,160	9,660	10,260	10,750
Surcharge	951	680	120	40	40	40
Total superannuation taxation	6,368	7,830	8,280	9,700	10,300	10,790
Company tax	48,960	56,076	62,964	66,869	68,760	70,168
Petroleum resource rent tax	1,917	1,520	1,890	2,340	2,990	2,390
<b>Income taxation receipts</b>	<b>174,063</b>	<b>184,906</b>	<b>195,134</b>	<b>207,079</b>	<b>219,310</b>	<b>229,668</b>
<i>Excise and customs</i>						
Excise duty						
Petrol	7,224	7,120	7,060	6,980	7,030	7,130
Diesel	6,217	6,210	6,370	6,580	6,800	7,030
Other fuel products	214	810	980	1,130	1,270	1,450
Crude oil	337	530	310	160	150	210
Beer	1,740	1,810	1,880	1,910	1,960	2,000
Potable spirits	808	870	950	1,050	1,150	1,240
Tobacco	5,274	5,370	5,390	5,410	5,420	5,430
Total excise duty receipts	21,814	22,720	22,940	23,220	23,780	24,490
Customs duty						
Textiles, clothing and footwear	832	920	1,000	1,060	830	590
Passenger motor vehicles	665	810	940	1,000	770	500
Excise-like goods	1,767	2,160	2,270	2,390	2,530	2,670
Other imports	1,584	1,490	1,570	1,670	1,780	1,900
less: Refunds and drawbacks	360	370	370	380	380	380
Total customs duty receipts	4,488	5,010	5,410	5,740	5,530	5,280
<b>Excise and customs receipts</b>	<b>26,302</b>	<b>27,730</b>	<b>28,350</b>	<b>28,960</b>	<b>29,310</b>	<b>29,770</b>
<i>Other taxation</i>						
Wine equalisation tax	656	660	670	690	710	730
Luxury car tax	322	340	360	380	390	400
Agricultural levies	610	598	586	597	399	366
Other taxes	1,964	2,165	1,757	1,857	1,954	1,910
<b>Other taxation receipts</b>	<b>3,553</b>	<b>3,763</b>	<b>3,373</b>	<b>3,524</b>	<b>3,453</b>	<b>3,407</b>
<b>Taxation receipts</b>	<b>203,918</b>	<b>216,400</b>	<b>226,857</b>	<b>239,562</b>	<b>252,073</b>	<b>262,845</b>
<i>Non-taxation</i>						
Sales of goods and services	5,566	5,221	5,437	5,596	5,749	6,160
Dividends	4,360	3,120	2,926	3,837	3,949	4,085
Interest received	2,325	3,736	3,992	3,743	4,636	5,391
Other non-taxation receipts	5,665	6,144	6,399	6,481	6,529	7,358
<b>Non-taxation receipts</b>	<b>17,916</b>	<b>18,220</b>	<b>18,754</b>	<b>19,656</b>	<b>20,864</b>	<b>22,994</b>
<b>Total receipts</b>	<b>221,834</b>	<b>234,619</b>	<b>245,611</b>	<b>259,218</b>	<b>272,937</b>	<b>285,839</b>

## APPENDIX B: CHANGES SINCE MYEFO

**Table B1: Reconciliation of 2006-07 general government revenue (accrual basis)**

	Estimates		Change on MYEFO	
	MYEFO \$m	Budget \$m	\$m	%
<i>Income taxation</i>				
Individuals and other withholding taxes				
Gross income tax withholding	105,580	107,710	2,130	2.0
Gross other individuals	27,350	26,820	-530	-1.9
less: Refunds	16,790	17,140	350	2.1
Total individuals and other withholding taxation	116,140	117,390	1,250	1.1
Fringe benefits tax	3,730	3,850	120	3.2
Superannuation funds				
Contributions and earnings	6,450	7,190	740	11.5
Surcharge	520	270	-250	-48.1
Total superannuation taxation	6,970	7,460	490	7.0
Company tax	56,750	58,270	1,520	2.7
Petroleum resource rent tax	1,750	1,560	-190	-10.9
<b>Income taxation revenue</b>	<b>185,340</b>	<b>188,530</b>	<b>3,190</b>	<b>1.7</b>
<i>Excise and customs</i>				
Excise duty				
Petrol	7,110	7,130	20	0.3
Diesel	6,280	6,210	-70	-1.1
Other fuel products	610	810	200	32.8
Crude oil	580	530	-50	-8.6
Beer	1,780	1,810	30	1.7
Potable spirits	870	870	0	0.0
Tobacco	5,370	5,370	0	0.0
Total excise duty revenue	22,600	22,730	130	0.6
Customs duty				
Textiles, clothing and footwear	860	920	60	7.0
Passenger motor vehicles	1,140	1,250	110	9.6
Excise-like goods	2,170	2,160	-10	-0.5
Other imports	1,570	1,500	-70	-4.5
less: Refunds and drawbacks	230	230	0	0.0
Total customs duty revenue	5,510	5,600	90	1.6
<b>Excise and customs revenue</b>	<b>28,110</b>	<b>28,330</b>	<b>220</b>	<b>0.8</b>
<i>Other taxation</i>				
Wine equalisation tax	670	670	0	0.0
Luxury car tax	330	350	20	6.1
Agricultural levies	585	598	13	2.2
Other taxes	2,021	1,989	-32	-1.6
<b>Other taxation revenue</b>	<b>3,606</b>	<b>3,606</b>	<b>0</b>	<b>0.0</b>
<b>Taxation revenue</b>	<b>217,056</b>	<b>220,466</b>	<b>3,410</b>	<b>1.6</b>
<i>Non-taxation</i>				
Sales of goods and services	4,984	5,008	24	0.5
Dividends	2,860	2,774	-86	-3.0
Interest received	3,581	3,841	260	7.3
Other non-taxation revenue	3,404	3,449	45	1.3
<b>Non-taxation revenue</b>	<b>14,828</b>	<b>15,072</b>	<b>244</b>	<b>1.6</b>
<b>Total revenue</b>	<b>231,885</b>	<b>235,539</b>	<b>3,654</b>	<b>1.6</b>

**Table B2: Reconciliation of 2007-08 general government revenue (accrual basis)**

	Estimates		Change on MYEFO	
	MYEFO \$m	Budget \$m	\$m	%
<i>Income taxation</i>				
Individuals and other withholding taxes				
Gross income tax withholding	112,110	111,360	-750	-0.7
Gross other individuals	28,100	27,560	-540	-1.9
less: Refunds	18,820	19,360	540	2.9
Total individuals and other withholding taxation	121,390	119,560	-1,830	-1.5
Fringe benefits tax	4,000	4,110	110	2.8
Superannuation funds				
Contributions and earnings	7,270	8,210	940	12.9
Surcharge	100	90	-10	-10.0
Total superannuation taxation	7,370	8,300	930	12.6
Company tax	60,490	64,580	4,090	6.8
Petroleum resource rent tax	2,080	1,980	-100	-4.8
<b>Income taxation revenue</b>	<b>195,330</b>	<b>198,530</b>	<b>3,200</b>	<b>1.6</b>
<i>Excise and customs</i>				
Excise duty				
Petrol	7,090	7,070	-20	-0.3
Diesel	6,500	6,370	-130	-2.0
Other fuel products	650	980	330	50.8
Crude oil	320	310	-10	-3.1
Beer	1,800	1,880	80	4.4
Potable spirits	950	950	0	0.0
Tobacco	5,440	5,390	-50	-0.9
Total excise duty revenue	22,750	22,950	200	0.9
Customs duty				
Textiles, clothing and footwear	910	1,000	90	9.9
Passenger motor vehicles	1,220	1,340	120	9.8
Excise-like goods	2,240	2,270	30	1.3
Other imports	1,690	1,580	-110	-6.5
less: Refunds and drawbacks	230	230	0	0.0
Total customs duty revenue	5,830	5,960	130	2.2
<b>Excise and customs revenue</b>	<b>28,580</b>	<b>28,910</b>	<b>330</b>	<b>1.2</b>
<i>Other taxation</i>				
Wine equalisation tax	680	680	0	0.0
Luxury car tax	340	370	30	8.8
Agricultural levies	586	586	0	0.1
Other taxes	2,039	1,993	-46	-2.3
<b>Other taxation revenue</b>	<b>3,645</b>	<b>3,629</b>	<b>-16</b>	<b>-0.4</b>
<b>Taxation revenue</b>	<b>227,555</b>	<b>231,069</b>	<b>3,514</b>	<b>1.5</b>
<i>Non-taxation</i>				
Sales of goods and services	5,003	5,220	217	4.3
Dividends	2,812	2,966	154	5.5
Interest received	3,896	4,147	251	6.5
Other non-taxation revenue	3,461	3,357	-104	-3.0
<b>Non-taxation revenue</b>	<b>15,171</b>	<b>15,691</b>	<b>520</b>	<b>3.4</b>
<b>Total revenue</b>	<b>242,726</b>	<b>246,761</b>	<b>4,035</b>	<b>1.7</b>

**Table B3: Reconciliation of 2006-07 general government receipts (cash basis)**

	Estimates		Change on MYEFO	
	MYEFO \$m	Budget \$m	\$m	%
<i>Income taxation</i>				
Individuals and other withholding taxes				
Gross income tax withholding	104,830	107,000	2,170	2.1
Gross other individuals	26,260	25,740	-520	-2.0
less: Refunds	16,790	17,140	350	2.1
Total individuals and other withholding taxation	114,300	115,600	1,300	1.1
Fringe benefits tax	3,800	3,880	80	2.1
Superannuation funds				
Contributions and earnings	6,400	7,150	750	11.7
Surcharge	710	680	-30	-4.2
Total superannuation taxation	7,110	7,830	720	10.1
Company tax	55,770	56,076	306	0.5
Petroleum resource rent tax	1,560	1,520	-40	-2.6
<b>Income taxation receipts</b>	<b>182,540</b>	<b>184,906</b>	<b>2,366</b>	<b>1.3</b>
<i>Excise and customs</i>				
Excise duty				
Petrol	7,100	7,120	20	0.3
Diesel	6,280	6,210	-70	-1.1
Other fuel products	610	810	200	32.8
Crude oil	580	530	-50	-8.6
Beer	1,780	1,810	30	1.7
Potable spirits	870	870	0	0.0
Tobacco	5,370	5,370	0	0.0
Total excise duty receipts	22,590	22,720	130	0.6
Customs duty				
Textiles, clothing and footwear	860	920	60	7.0
Passenger motor vehicles	680	810	130	19.1
Excise-like goods	2,170	2,160	-10	-0.5
Other imports	1,550	1,490	-60	-3.9
less: Refunds and drawbacks	370	370	0	0.0
Total customs duty receipts	4,890	5,010	120	2.5
<b>Excise and customs receipts</b>	<b>27,480</b>	<b>27,730</b>	<b>250</b>	<b>0.9</b>
<i>Other taxation</i>				
Wine equalisation tax	660	660	0	0.0
Luxury car tax	320	340	20	6.3
Agricultural levies	585	598	12	2.1
Other taxes	1,775	2,165	390	22.0
<b>Other taxation receipts</b>	<b>3,340</b>	<b>3,763</b>	<b>423</b>	<b>12.7</b>
<b>Taxation receipts</b>	<b>213,360</b>	<b>216,400</b>	<b>3,039</b>	<b>1.4</b>
<i>Non-taxation</i>				
Sales of goods and services	5,280	5,221	-60	-1.1
Dividends	3,170	3,120	-50	-1.6
Interest received	3,477	3,736	259	7.4
Other non-taxation receipts	6,295	6,144	-151	-2.4
<b>Non-taxation receipts</b>	<b>18,222</b>	<b>18,220</b>	<b>-2</b>	<b>0.0</b>
<b>Total receipts</b>	<b>231,582</b>	<b>234,619</b>	<b>3,037</b>	<b>1.3</b>

**Table B4: Reconciliation of 2007-08 general government receipts (cash basis)**

	Estimates		Change on MYEFO	
	MYEFO \$m	Budget \$m	\$m	%
<i>Income taxation</i>				
Individuals and other withholding taxes				
Gross income tax withholding	111,320	110,690	-630	-0.6
Gross other individuals	26,990	26,620	-370	-1.4
less: Refunds	18,820	19,360	540	2.9
Total individuals and other withholding taxation	119,490	117,950	-1,540	-1.3
Fringe benefits tax	3,930	4,050	120	3.1
Superannuation funds				
Contributions and earnings	7,210	8,160	950	13.2
Surcharge	130	120	-10	-7.7
Total superannuation taxation	7,340	8,280	940	12.8
Company tax	59,500	62,964	3,464	5.8
Petroleum resource rent tax	1,970	1,890	-80	-4.1
<b>Income taxation receipts</b>	<b>192,230</b>	<b>195,134</b>	<b>2,904</b>	<b>1.5</b>
<i>Excise and customs</i>				
Excise duty				
Petrol	7,080	7,060	-20	-0.3
Diesel	6,500	6,370	-130	-2.0
Other fuel products	650	980	330	50.8
Crude oil	320	310	-10	-3.1
Beer	1,800	1,880	80	4.4
Potable spirits	950	950	0	0.0
Tobacco	5,440	5,390	-50	-0.9
Total excise duty receipts	22,740	22,940	200	0.9
Customs duty				
Textiles, clothing and footwear	910	1,000	90	9.9
Passenger motor vehicles	760	940	180	23.7
Excise-like goods	2,240	2,270	30	1.3
Other imports	1,666	1,570	-96	-5.7
less: Refunds and drawbacks	370	370	0	0.0
Total customs duty receipts	5,206	5,410	204	3.9
<b>Excise and customs receipts</b>	<b>27,946</b>	<b>28,350</b>	<b>404</b>	<b>1.4</b>
<i>Other taxation</i>				
Wine equalisation tax	670	670	0	0.0
Luxury car tax	330	360	30	9.1
Agricultural levies	586	586	0	0.0
Other taxes	1,766	1,757	-9	-0.5
<b>Other taxation receipts</b>	<b>3,352</b>	<b>3,373</b>	<b>21</b>	<b>0.6</b>
<b>Taxation receipts</b>	<b>223,528</b>	<b>226,857</b>	<b>3,329</b>	<b>1.5</b>
<i>Non-taxation</i>				
Sales of goods and services	5,238	5,437	199	3.8
Dividends	2,782	2,926	145	5.2
Interest received	3,664	3,992	328	9.0
Other non-taxation receipts	6,495	6,399	-96	-1.5
<b>Non-taxation receipts</b>	<b>18,178</b>	<b>18,754</b>	<b>576</b>	<b>3.2</b>
<b>Total receipts</b>	<b>241,707</b>	<b>245,611</b>	<b>3,905</b>	<b>1.6</b>



## APPENDIX C: REVENUE AND RECEIPTS HISTORY AND FORECASTS

Table C1: Australian Government revenue (accrual basis)<sup>(a)</sup>

	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07 (est)	2007-08 (est)
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<i>Income taxation</i>									
Individuals and other withholding taxes									
Gross income tax withholding	81,266	75,614	79,822	84,640	90,095	98,250	103,811	107,710	111,360
Gross other individuals	14,232	13,426	17,237	18,314	21,010	24,003	25,859	26,820	27,560
less: Refunds	10,909	10,989	10,637	11,651	12,325	13,734	15,239	17,140	19,360
Total individuals and other withholding	84,588	78,051	86,422	91,303	98,779	108,519	114,431	117,390	119,560
Fringe benefits tax	3,708	3,741	4,032	3,154	3,642	3,476	4,084	3,850	4,110
Superannuation funds									
Contributions and earnings	3,245	4,652	3,341	3,617	4,487	5,083	5,416	7,190	8,210
Surcharge	667	634	830	1,279	1,298	1,326	1,289	270	90
Total superannuation funds	3,912	5,286	4,171	4,896	5,785	6,410	6,705	7,460	8,300
Company tax	24,815	35,136	27,133	33,365	36,337	43,106	48,987	58,270	64,580
Petroleum resource rent tax	1,205	2,388	1,306	1,715	1,165	1,465	1,991	1,560	1,980
<b>Income taxation revenue</b>	<b>118,228</b>	<b>124,602</b>	<b>123,064</b>	<b>134,432</b>	<b>145,709</b>	<b>162,974</b>	<b>176,198</b>	<b>186,530</b>	<b>198,530</b>
<i>Excise and customs</i>									
Excise duty									
Petroleum and other fuel products	11,199	11,921	12,400	12,920	13,220	13,682	13,711	14,150	14,420
Crude oil	219	526	393	417	309	668	362	530	310
Other excise	2,674	6,572	6,837	7,450	7,539	7,631	7,854	8,050	8,220
Total excise duty	14,091	19,019	19,630	20,787	21,068	21,981	21,927	22,730	22,950
Customs duty	3,799	4,606	5,214	5,573	5,622	5,548	4,988	5,600	5,960
<b>Excise and customs revenue</b>	<b>17,890</b>	<b>23,625</b>	<b>24,844</b>	<b>26,359</b>	<b>26,690</b>	<b>27,529</b>	<b>26,914</b>	<b>28,330</b>	<b>28,910</b>
<i>Other indirect taxation</i>									
Wine equalisation tax	0	528	648	673	705	693	657	670	680
Luxury car tax	0	172	220	261	336	302	331	350	370
Agricultural levies	551	451	550	586	603	584	610	598	586
Other taxes(b)	16,805	2,702	1,548	1,645	1,797	2,068	2,122	1,989	1,993
<b>Other indirect taxation revenue</b>	<b>17,356</b>	<b>3,853</b>	<b>2,965</b>	<b>3,165</b>	<b>3,440</b>	<b>3,647</b>	<b>3,720</b>	<b>3,606</b>	<b>3,629</b>
<b>Taxation revenue</b>	<b>153,473</b>	<b>152,080</b>	<b>150,873</b>	<b>163,957</b>	<b>175,838</b>	<b>194,150</b>	<b>206,832</b>	<b>220,466</b>	<b>231,069</b>

**Table C1: Australian Government revenue (accrual basis)<sup>(a)</sup> (continued)**

	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07 (est)	2007-08 (est)
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<i>Non-taxation</i>									
Interest received	967	1,105	1,188	1,185	1,304	1,621	2,437	3,841	4,147
Dividends and other	12,718	8,889	10,895	10,371	10,781	10,834	12,649	11,231	11,544
<b>Non-taxation revenue</b>	<b>13,685</b>	<b>9,994</b>	<b>12,083</b>	<b>11,556</b>	<b>12,085</b>	<b>12,455</b>	<b>15,086</b>	<b>15,072</b>	<b>15,691</b>
<b>Total revenue</b>	<b>167,158</b>	<b>162,074</b>	<b>162,956</b>	<b>175,513</b>	<b>187,924</b>	<b>206,605</b>	<b>221,918</b>	<b>235,539</b>	<b>246,761</b>

(a) Figures are on an Australian Government general government GFS basis.

(b) 'Other taxes' includes wholesale sales tax prior to 2000-01, when it was abolished as part of the changes under *The New Tax System*.

**Table C2: Major categories of revenue as a proportion of gross domestic product (accrual basis)<sup>(a)</sup>**

	Taxation revenue												Non-taxation revenue					
	Income tax						Other taxation revenue						InterestDividends and other revenue		Total non-tax revenue			
	Gross ITW %	Refunds other individuals %	FBT individuals & w/holding %	Super funds %	Companies %	PRRT %	Total income tax %	Petrol & other products %	Other fuel excise %	Customs duty %	Other tax(b) %	Total tax revenue %	Total tax revenue %	Interest %	Dividends %	and other revenue %	Total non-tax revenue %	
1999-00	12.6	2.2	1.7	13.1	0.6	0.6	3.8	0.2	18.3	1.8	0.4	0.6	2.7	23.8	0.1	2.0	2.1	25.9
2000-01	11.0	1.9	1.6	11.3	0.5	0.8	5.1	0.3	18.1	1.8	1.0	0.7	0.6	22.1	0.2	1.3	1.4	23.5
2001-02	10.8	2.3	1.4	11.7	0.5	0.6	3.7	0.2	16.7	1.7	0.9	0.7	0.4	20.5	0.2	1.5	1.6	22.1
2002-03	10.8	2.3	1.5	11.7	0.4	0.6	4.3	0.2	17.2	1.7	1.0	0.7	0.4	21.0	0.2	1.3	1.5	22.5
2003-04	10.7	2.5	1.5	11.8	0.4	0.7	4.3	0.1	17.3	1.6	0.9	0.7	0.4	20.9	0.2	1.3	1.4	22.4
2004-05	11.0	2.7	1.5	12.1	0.4	0.7	4.8	0.2	18.2	1.6	0.9	0.6	0.4	21.7	0.2	1.2	1.4	23.0
2005-06	10.7	2.7	1.6	11.8	0.4	0.7	5.1	0.2	18.2	1.5	0.8	0.5	0.4	21.4	0.3	1.3	1.6	23.0
2006-07 est	10.4	2.6	1.7	11.4	0.4	0.7	5.6	0.2	18.3	1.4	0.8	0.5	0.3	21.3	0.4	1.1	1.5	22.8
2007-08 est	10.1	2.5	1.8	10.9	0.4	0.8	5.9	0.2	18.1	1.3	0.7	0.5	0.3	21.1	0.4	1.1	1.4	22.5

(a) Figures are on an Australian Government general government GFS basis.

(b) 'Other tax' includes wholesale sales tax prior to 2000-01, when it was abolished as part of the changes under *The New Tax System*.

**Table C3: Major categories of revenue as a proportion of total revenue (accrual basis)<sup>(a)</sup>**

	Taxation revenue														Non-taxation revenue			
	Income tax				PRRT				Other taxation revenue						Interest and Dividends and other revenue			
	Gross ITW %	Refunds other individuals %	Total individuals & w/holding %	FBT %	Super funds %	Companies %	PRRT %	Total income tax %	Petrol & other products %	Other fuel %	Excise %	Other %	Customs duty %	Other tax(b) %	Total tax revenue %	Interest %	Dividends and other %	Total non-tax revenue %
1999-00	48.6	8.5	6.5	50.6	2.2	2.3	14.8	0.7	70.7	6.8	1.6	2.3	10.4	91.8	0.6	7.6	8.2	
2000-01	46.7	8.3	6.8	48.2	2.3	3.3	21.7	1.5	76.9	7.7	4.1	2.8	2.4	93.8	0.7	5.5	6.2	
2001-02	49.0	10.6	6.5	53.0	2.5	2.6	16.7	0.8	75.5	7.9	4.2	3.2	1.8	92.6	0.7	6.7	7.4	
2002-03	48.2	10.4	6.6	52.0	1.8	2.8	19.0	1.0	76.6	7.6	4.2	3.2	1.8	93.4	0.7	5.9	6.6	
2003-04	47.9	11.2	6.6	52.6	1.9	3.1	19.3	0.6	77.5	7.2	4.0	3.0	1.8	93.6	0.7	5.7	6.4	
2004-05	47.6	11.6	6.6	52.5	1.7	3.1	20.9	0.7	78.9	6.9	3.7	2.7	1.8	94.0	0.8	5.2	6.0	
2005-06	46.8	11.7	6.9	51.6	1.8	3.0	22.1	0.9	79.4	6.3	3.5	2.2	1.7	93.2	1.1	5.7	6.8	
2006-07 est	45.7	11.4	7.3	49.8	1.6	3.2	24.7	0.7	80.0	6.2	3.4	2.4	1.5	93.6	1.6	4.8	6.4	
2007-08 est	45.1	11.2	7.8	48.5	1.7	3.4	26.2	0.8	80.5	6.0	3.3	2.4	1.5	93.6	1.7	4.7	6.4	

(a) Figures are on an Australian Government general government GFS basis.

(b) 'Other tax' includes wholesale sales tax prior to 2000-01, when it was abolished as part of the changes under *The New Tax System*.

**Table C4: Australian Government receipts (cash basis)<sup>(a)</sup>**

	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07 (est)	2007-08 (est)
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<i>Income taxation</i>												
Individuals and other withholding taxes												
Gross income tax withholding	64,521	69,366	75,170	81,055	75,009	78,983	84,134	89,638	97,304	103,120	107,000	110,690
Gross other individuals(b)	11,820	12,119	13,103	13,370	13,226	16,290	17,436	19,935	22,554	24,895	25,740	26,620
less: Refunds	8,808	9,525	10,325	10,946	10,989	10,637	11,651	12,325	13,734	15,244	17,140	19,360
Total individuals and other withholding	67,533	71,959	77,948	83,478	77,246	84,636	89,919	97,247	106,123	112,770	115,600	117,950
Fringe benefits tax	3,163	3,168	3,289	3,656	3,492	3,632	3,459	3,590	3,703	4,049	3,880	4,050
Superannuation funds												
Contributions and earnings	2,595	2,746	3,630	3,243	4,110	3,550	3,865	4,502	5,014	5,416	7,150	8,160
Surcharge		347	286	577	690	824	975	1,050	1,233	951	680	120
Total superannuation funds	2,595	3,093	3,916	3,820	4,800	4,373	4,840	5,551	6,248	6,368	7,830	8,280
Company tax	19,173	19,406	20,734	24,453	31,582	27,230	32,752	36,101	40,404	48,960	56,076	62,964
Petroleum resource rent tax	1,308	907	419	1,184	2,379	1,361	1,712	1,168	1,459	1,917	1,520	1,890
<b>Income taxation receipts</b>	<b>93,773</b>	<b>98,534</b>	<b>106,306</b>	<b>116,592</b>	<b>119,498</b>	<b>121,233</b>	<b>132,681</b>	<b>143,657</b>	<b>157,937</b>	<b>174,063</b>	<b>184,906</b>	<b>195,134</b>
<i>Excise and customs</i>												
Excise duty												
Petroleum and other fuel products	10,543	10,895	10,974	11,189	11,919	12,386	12,866	13,231	13,608	13,655	14,140	14,410
Crude oil	9	16	31	219	526	393	417	309	668	337	530	310
Other excise	2,739	2,663	2,614	2,670	6,572	6,837	7,450	7,539	7,612	7,822	8,050	8,220
Total excise duty	13,291	13,574	13,619	14,078	19,017	19,616	20,733	21,079	21,888	21,814	22,720	22,940
Customs duty	3,289	3,637	3,634	3,771	4,584	4,625	4,982	5,038	5,012	4,488	5,010	5,410
<b>Excise and customs receipts</b>	<b>16,580</b>	<b>17,211</b>	<b>17,253</b>	<b>17,849</b>	<b>23,601</b>	<b>24,241</b>	<b>25,715</b>	<b>26,117</b>	<b>26,900</b>	<b>26,302</b>	<b>27,730</b>	<b>28,350</b>
<i>Other indirect taxation</i>												
Wine equalisation tax				524	640	669	669	704	682	656	660	670
Luxury car tax				171	220	261	261	335	298	322	340	360
Agricultural levies				551	451	550	586	603	584	610	598	586
Other taxes(c)	15,462	16,475	17,545	16,321	2,453	1,459	1,506	1,607	1,775	1,964	2,165	1,757
<b>Other indirect taxation receipts</b>	<b>15,462</b>	<b>16,475</b>	<b>17,545</b>	<b>16,871</b>	<b>3,599</b>	<b>2,870</b>	<b>3,022</b>	<b>3,249</b>	<b>3,339</b>	<b>3,553</b>	<b>3,763</b>	<b>3,373</b>
<b>Taxation receipts</b>	<b>125,815</b>	<b>132,219</b>	<b>141,104</b>	<b>151,313</b>	<b>146,698</b>	<b>148,343</b>	<b>161,418</b>	<b>173,023</b>	<b>188,176</b>	<b>203,918</b>	<b>216,400</b>	<b>226,857</b>

**Table C4: Australian Government receipts (cash basis)<sup>(a)</sup> (continued)**

	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07(est)	2007-08(est)
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<i>Non-taxation</i>												
Interest received	1,126	1,139	682	995	1,140	918	982	1,056	1,400	2,325	3,736	3,992
Dividends and other	4,089	3,610	4,659	13,782	13,276	13,623	14,102	13,257	14,384	15,591	14,484	14,762
<b>Non-taxation receipts</b>	<b>5,216</b>	<b>4,749</b>	<b>5,341</b>	<b>14,777</b>	<b>14,416</b>	<b>14,541</b>	<b>15,084</b>	<b>14,313</b>	<b>15,784</b>	<b>17,916</b>	<b>18,220</b>	<b>18,754</b>
<b>Total receipts</b>	<b>131,031</b>	<b>136,968</b>	<b>146,444</b>	<b>166,089</b>	<b>161,115</b>	<b>162,884</b>	<b>176,503</b>	<b>187,336</b>	<b>203,960</b>	<b>221,834</b>	<b>234,619</b>	<b>245,611</b>

(a) Figures up to and including 1998-99 are based on the old Commonwealth Budget Sector accounting framework. Figures from 1999-2000 are on an Australian Government general government GFS basis.

(b) 'Other taxes' includes wholesale sales tax prior to 2000-01, when it was abolished as part of the changes under *The New Tax System*.

(c) Gross other individuals includes amounts previously collected under the Prescribed Payments System and Reportable Payments System between 1983-84 and 1999-00.

**Table C5: Major categories of receipts as a proportion of gross domestic product (cash basis)<sup>(a)</sup>**

	Taxation receipts												Non-taxation receipts						
	Income tax						Other taxation receipts						Interest			Dividends and other receipts			
	Gross ITW %	Gross other individuals(c) %	Refunds %	Total individuals & w/holding %	FBT %	Super funds %	Companies %	PRRT %	Total income tax %	Petrol & other products %	Other fuel %	Excise %	Customs duty %	Other tax(b) %	Total receipts %	Total tax receipts %	Interest %	Dividends %	and other receipts %
1977-78	10.4	2.4	0.9	11.9	0.0	0.0	3.0	0.0	14.9	1.3	1.4	1.1	2.2	20.9	20.9	1.8	0.3	2.1	22.9
1978-79	9.9	2.1	0.9	11.1	0.0	0.0	2.6	0.0	13.7	1.8	1.5	1.2	2.0	20.2	20.2	1.6	0.3	2.0	22.2
1979-80	10.2	2.2	0.9	11.5	0.0	0.0	2.6	0.0	14.1	2.4	1.4	1.2	1.9	20.9	20.9	1.4	0.3	1.7	22.6
1980-81	10.3	2.3	0.8	11.8	0.0	0.0	3.1	0.0	15.0	2.7	1.2	1.2	1.8	21.9	21.9	1.4	0.3	1.7	23.6
1981-82	11.0	2.2	0.8	12.4	0.0	0.0	2.9	0.0	15.4	2.4	1.1	1.2	2.0	22.1	22.1	1.4	0.3	1.7	23.8
1982-83	11.4	2.2	1.1	12.5	0.0	0.0	2.6	0.0	15.1	2.6	1.1	1.1	2.3	22.2	22.2	1.5	0.5	2.0	24.2
1983-84	10.8	2.3	1.1	11.9	0.0	0.0	2.2	0.0	14.1	2.8	1.0	1.1	2.5	21.5	21.5	1.4	0.6	2.0	23.5
1984-85	11.2	2.5	0.9	12.8	0.0	0.0	2.4	0.0	15.2	2.8	0.9	1.3	2.7	23.0	23.0	1.4	0.7	2.1	25.1
1985-86	11.5	2.8	1.3	13.0	0.0	0.0	2.4	0.0	15.4	2.8	0.9	1.3	2.8	23.2	23.2	1.4	1.0	2.4	25.6
1986-87	11.7	3.4	1.3	13.8	0.2	0.0	2.4	0.0	16.4	2.6	0.9	1.2	2.8	23.9	23.9	1.3	1.1	2.4	26.3
1987-88	11.2	3.4	1.3	13.3	0.3	0.0	2.8	0.0	16.4	2.3	0.9	1.1	2.9	23.6	23.6	1.1	0.8	1.9	25.6
1988-89	11.6	3.2	1.4	13.3	0.3	0.0	2.8	0.0	16.4	1.9	0.6	1.0	3.1	23.2	23.2	1.0	0.3	1.4	24.5
1989-90	11.2	3.1	1.5	12.8	0.3	0.1	3.3	0.0	16.5	1.9	0.6	1.0	3.0	23.0	23.0	0.9	0.3	1.2	24.2
1990-91	11.0	3.2	1.7	12.5	0.3	0.3	3.5	0.1	16.6	2.0	0.6	0.8	2.8	22.8	22.8	0.8	0.4	1.2	24.0
1991-92	10.7	2.6	1.9	11.4	0.3	0.3	3.2	0.2	15.4	1.7	0.6	0.8	2.6	21.1	21.1	0.7	0.6	1.3	22.4
1992-93	10.5	2.3	1.8	11.0	0.3	0.3	3.0	0.3	15.0	1.7	0.5	0.8	2.5	20.4	20.4	0.6	0.7	1.3	21.7
1993-94	10.4	2.3	1.5	11.2	0.3	0.3	2.8	0.2	14.7	1.9	0.5	0.7	2.6	20.4	20.4	0.4	1.0	1.5	21.9
1994-95	10.7	2.4	1.6	11.4	0.6	0.4	3.2	0.2	15.8	1.9	0.5	0.7	2.8	21.7	21.7	0.4	0.6	1.0	22.7
1995-96	11.2	2.4	1.6	11.9	0.6	0.3	3.5	0.2	16.5	2.0	0.5	0.6	2.9	22.5	22.5	0.3	0.8	1.0	23.5
1996-97	11.4	2.6	1.6	12.4	0.6	0.5	3.5	0.2	17.2	1.9	0.5	0.6	2.8	23.1	23.1	0.2	0.7	1.0	24.0
1997-98	11.6	2.5	1.6	12.5	0.5	0.5	3.4	0.2	17.1	1.9	0.5	0.6	2.9	22.9	22.9	0.2	0.6	0.8	23.7

**Table C5: Major categories of receipts as a proportion of gross domestic product (cash basis)<sup>(a)</sup> (continued)**

Gross ITW %	Taxation receipts										Non-taxation receipts					
	Income tax					Other taxation receipts					Total interest and other receipts %	Dividends and other receipts %	Total non-tax receipts %	Total receipts %		
	Gross other individuals(c) %	Refunds %	Total individuals & w/holding %	FBT Super funds %	Companies %	PRRT %	Total income tax %	Petrol & other products %	Other fuel excise %	Customs duty %					Other tax(b) %	
11.9	2.6	1.7	12.8	0.5	0.6	3.4	0.1	17.5	1.8	0.4	0.6	2.9	0.1	0.8	0.9	24.1
12.1	2.6	1.7	12.9	0.6	0.6	3.8	0.2	18.1	1.8	0.4	0.6	2.6	0.2	2.1	2.3	25.7
10.9	1.9	1.6	11.2	0.5	0.7	4.6	0.3	17.3	1.8	1.0	0.7	0.5	0.2	1.9	2.1	23.4
10.7	2.2	1.4	11.5	0.5	0.6	3.7	0.2	16.5	1.7	0.9	0.6	0.4	0.1	1.9	2.0	22.1
10.8	2.2	1.5	11.5	0.4	0.6	4.2	0.2	17.0	1.7	1.0	0.6	0.4	0.1	1.8	1.9	22.6
10.7	2.4	1.5	11.6	0.4	0.7	4.3	0.1	17.1	1.6	0.9	0.6	0.4	0.1	1.6	1.7	22.3
10.9	2.5	1.5	11.8	0.4	0.7	4.5	0.2	17.6	1.6	0.8	0.6	0.4	0.2	1.6	1.8	22.7
10.7	2.6	1.6	11.7	0.4	0.7	5.1	0.2	18.0	1.4	0.8	0.5	0.4	0.2	1.6	1.9	23.0
10.4	2.5	1.7	11.2	0.4	0.8	5.4	0.1	17.9	1.4	0.8	0.5	0.4	0.4	1.4	1.8	22.7
10.1	2.4	1.8	10.7	0.4	0.8	5.7	0.2	17.8	1.3	0.7	0.5	0.3	0.4	1.3	1.7	22.4

(a) Figures are on an Australian Government general government GFS basis.

(b) 'Other tax' includes wholesale sales tax prior to 2000-01, when it was abolished as part of the changes under *The New Tax System*.

(c) Gross other individuals includes amounts previously collected under the Prescribed Payments System and Reportable Payments System between 1983-84 and 1999-00.



**Table C6: Major categories of receipts as a proportion of total receipts (cash basis)<sup>(a)</sup>**

	Taxation receipts														Non-taxation receipts			
	Income tax							Other taxation receipts							Total tax receipts	Interest	Dividends and other	Total non-tax receipts
	Gross ITW %	Gross other individuals(c) %	Refunds %	Total individuals & w/holding %	FBT %	Super funds %	Companies %	PRRT %	Total income tax %	Petrol & other products %	Other fuel %	Excise %	Customs duty %	Other tax(b) %				
1977-78	45.3	10.5	4.0	51.9	0.0	0.0	13.1	0.0	65.0	5.7	5.9	4.8	9.6	91.0	7.6	1.4	9.0	
1978-79	44.8	9.3	4.0	50.0	0.0	0.0	11.8	0.0	61.8	8.3	6.6	5.3	9.1	91.1	7.4	1.5	8.9	
1979-80	45.1	9.6	3.8	50.9	0.0	0.0	11.4	0.0	62.4	10.7	6.0	5.2	8.2	92.4	6.4	1.2	7.6	
1980-81	43.7	9.7	3.3	50.1	0.0	0.0	13.3	0.0	63.4	11.4	5.1	5.1	7.7	92.8	6.1	1.1	7.2	
1981-82	46.4	9.2	3.5	52.2	0.0	0.0	12.3	0.0	64.6	10.1	4.5	5.0	8.6	92.8	5.9	1.3	7.2	
1982-83	46.9	9.1	4.4	51.7	0.0	0.1	10.8	0.0	62.5	10.8	4.5	4.5	9.5	91.9	6.1	2.1	8.1	
1983-84	45.9	9.6	4.9	50.7	0.0	0.0	9.3	0.0	60.0	11.7	4.3	4.7	10.7	91.4	6.0	2.6	8.6	
1984-85	44.7	10.1	3.6	51.2	0.0	0.0	9.6	0.0	60.8	11.4	3.7	5.0	10.8	91.8	5.5	2.7	8.2	
1985-86	45.0	11.1	5.2	51.0	0.0	0.0	9.4	0.0	60.4	10.9	3.6	5.0	10.8	90.8	5.3	3.9	9.2	
1986-87	44.6	13.0	5.0	52.6	0.7	0.0	9.1	0.0	62.5	9.9	3.5	4.4	10.7	90.9	4.9	4.2	9.1	
1987-88	44.0	13.3	5.1	52.2	1.1	0.0	10.8	0.0	64.0	9.2	3.4	4.5	11.5	92.5	4.4	3.0	7.5	
1988-89	47.3	12.9	5.8	54.4	1.1	0.0	11.6	0.0	67.1	7.9	2.5	4.2	12.8	94.5	4.2	1.3	5.5	
1989-90	46.4	12.8	6.1	53.1	1.2	0.4	13.5	0.0	68.2	8.0	2.3	4.1	12.5	95.2	3.6	1.2	4.8	
1990-91	45.8	13.3	6.9	52.2	1.3	1.1	14.4	0.3	69.3	8.2	2.4	3.4	11.8	95.0	3.4	1.6	5.0	
1991-92	47.8	11.5	8.3	50.9	1.4	1.2	14.4	0.9	68.9	7.7	2.5	3.5	11.6	94.1	3.2	2.7	5.9	
1992-93	48.5	10.5	8.2	50.8	1.4	1.6	13.7	1.5	69.0	7.7	2.5	3.5	11.4	94.1	2.6	3.3	5.9	
1993-94	47.6	10.5	7.1	51.1	1.4	1.2	12.6	1.1	67.3	8.5	2.2	3.2	12.1	93.3	2.0	4.6	6.7	
1994-95	46.9	10.5	7.2	50.3	2.5	1.7	14.1	0.8	69.4	8.5	2.3	3.1	12.3	95.7	1.6	2.7	4.3	
1995-96	47.5	10.1	6.8	50.8	2.5	1.3	15.0	0.6	70.2	8.4	2.1	2.6	12.3	95.6	1.2	3.2	4.4	
1996-97	47.5	10.7	6.7	51.5	2.4	2.0	14.6	1.0	71.6	8.1	2.1	2.5	11.8	96.0	0.9	3.1	4.0	
1997-98	48.8	10.7	7.0	52.5	2.3	2.3	14.2	0.7	71.9	8.0	1.9	2.7	12.0	96.5	0.8	2.6	3.5	

**Table C6: Major categories of receipts as a proportion of total receipts (cash basis)<sup>(a)</sup> (continued)**

	Taxation receipts											Non-taxation receipts					
	Income tax					Other taxation receipts						Total tax receipts	Dividends and other	Interest	Total non-tax receipts		
	Gross ITW %	Gross other individuals(c) %	Refunds %	Total individuals & w/holding %	FBT %	Super funds %	Companies %	PRRT %	Total income tax %	Petrol & other products %	Other excise %					Customs duty %	Other tax(b) %
1998-99	49.4	10.9	7.1	53.2	2.2	2.7	14.2	0.3	72.6	7.5	1.8	2.5	12.0	96.4	0.5	3.2	3.6
1999-00	46.9	9.9	6.6	50.3	2.2	2.3	14.7	0.7	70.2	6.9	1.6	2.3	10.2	91.1	0.6	8.3	8.9
2000-01	46.6	8.2	6.8	47.9	2.2	3.0	19.6	1.5	74.2	7.7	4.1	2.8	2.2	91.1	0.7	8.2	8.9
2001-02	48.5	10.0	6.5	52.0	2.2	2.7	16.7	0.8	74.4	7.8	4.2	2.8	1.8	91.1	0.6	8.4	8.9
2002-03	47.7	9.9	6.6	50.9	2.0	2.7	18.6	1.0	75.2	7.5	4.2	2.8	1.7	91.5	0.6	8.0	8.5
2003-04	47.8	10.6	6.6	51.9	1.9	3.0	19.3	0.6	76.7	7.2	4.0	2.7	1.7	92.4	0.6	7.1	7.6
2004-05	47.7	11.1	6.7	52.0	1.8	3.1	19.8	0.7	77.4	7.0	3.7	2.5	1.6	92.3	0.7	7.1	7.7
2005-06	46.5	11.2	6.9	50.8	1.8	2.9	22.1	0.9	78.5	6.3	3.5	2.0	1.6	91.9	1.0	7.0	8.1
2006-07 est	45.6	11.0	7.3	49.3	1.7	3.3	23.9	0.6	78.8	6.3	3.4	2.1	1.6	92.2	1.6	6.2	7.8
2007-08 est	45.1	10.8	7.9	48.0	1.6	3.4	25.6	0.8	79.4	6.0	3.3	2.2	1.4	92.4	1.6	6.0	7.6

(a) Figures are on an Australian Government general government GFS basis.

(b) 'Other tax' includes wholesale sales tax prior to 2000-01, when it was abolished as part of the changes under *The New Tax System*.

(c) Gross other individuals includes amounts previously collected under the Prescribed Payments System and Reportable Payments System between 1983-84 and 1999-00.

## **APPENDIX D: DESCRIPTION OF THE REVENUE HEADS**

### **INCOME TAXATION**

#### **Individuals and other withholding taxation**

These revenue heads broadly cover all personal income tax. A schedule of the personal income tax rates for the period covered in this budget is provided in Table D1.

#### Gross income tax withholding

The bulk of Gross income tax withholding (ITW) revenue arises from the Pay-As-You-Go (PAYG) withholding system, under which taxes are withheld from wage and salary income.

ITW also includes all other withholding taxes levied on natural resource payments, dividends, interest and royalties paid to non-residents, payments to Australian indigenous groups for the use of land for mineral exploration and mining, and amounts withheld because no Tax File Number or Australian Business Number was quoted – these taxes are often withheld from companies, rather than individuals. It also includes applicable Medicare levy revenue.

#### Gross other individuals

Gross revenue from other individuals consists of income tax paid by individuals other than that collected through the PAYG withholding system, and includes applicable Medicare levy revenue. It comprises:

- PAYG instalments paid directly by individuals – that is, not withheld by employers; and
- debit assessments on income tax returns.

Taxpayers in this category derive their income from many sources, including:

- profits from small unincorporated businesses, primary production and investment activities;
- wages and salaries (when PAYG withholding credits are insufficient to meet the tax liability on assessment); and
- capital gains.

Most revenue from other individuals is collected directly from the taxpayer through the PAYG instalment system. Individuals with annual tax liabilities of \$8,000 or more and individuals who are registered for the GST will generally make quarterly payments. Individuals who have annual taxation liabilities of less than \$8,000 and are

## *Statement 5: Revenue*

not registered for the GST have the choice of making quarterly payments or an annual payment.

Revenue from other individuals is also collected from debit assessments on income tax returns. These arise when tax credits are insufficient to meet the final tax liability, requiring taxpayers to make an additional payment for the difference.

### Income tax refunds for individuals

A final assessment of the income tax liabilities of individual taxpayers is normally made on the basis of returns lodged after the end of each financial year. Refunds from the ATO are made where tax credits to an individual exceed their final liability on assessment.

### Medicare levy

The amount of Medicare levy paid is based on an individual's taxable income and is normally calculated at 1.5 per cent of taxable income, but this rate may vary depending on circumstances. An individual may be exempt from the levy or may pay a reduced levy if the taxpayer has a low income. Individuals and families on higher incomes who do not have an appropriate level of private hospital cover may also have to pay the Medicare levy surcharge, which is calculated at an additional 1 per cent of taxable income.

### Low income tax offset (LITO)

The low income tax offset provides targeted tax relief to low income earners. The LITO is claimable on assessment and reduces a taxpayer's tax liability.

Table D1: Personal income tax rates<sup>(a)</sup>

	From 1 July 2005		From 1 July 2006		From 1 July 2007		From 1 July 2008	
	Taxable income	Per cent	Taxable income	Per cent	Taxable income	Per cent	Taxable income	Per cent
<b>Residents</b>	\$0-\$6,000	Nil	\$0-\$6,000	Nil	\$0-\$6,000	Nil	\$0-\$6,000	Nil
	\$6,001-\$21,600	15	\$6,001-\$25,000	15	\$6,001-\$30,000	15	\$6,001-\$30,000	15
	\$21,601-\$63,000	30	\$25,001-\$75,000	30	\$30,001-\$75,000	30	\$30,001-\$80,000	30
	\$63,001-\$95,000	42	\$75,001-\$150,000	40	\$75,001-\$150,000	40	\$80,001-\$180,000	40
	> \$95,000	47	> \$150,000	45	> \$150,000	45	> \$180,000	45
<b>Non-residents</b>	\$0-\$21,600	29	\$0-\$25,000	29	\$0-\$30,000	29	\$0-\$30,000	29
	\$21,601-\$63,000	30	\$25,001-\$75,000	30	\$30,001-\$75,000	30	\$30,001-\$80,000	30
	\$63,001-\$95,000	42	\$75,001-\$150,000	40	\$75,001-\$150,000	40	\$80,001-\$180,000	40
	> \$95,000	47	> \$150,000	45	> \$150,000	45	> \$180,000	45
<b>Medicare levy for singles(b)</b>	\$0-\$16,284	Nil	\$0-\$16,740	Nil	\$0-\$16,740	Nil	\$0-\$16,740	Nil
	\$16,285-\$17,604	20% of > \$16,284	\$16,741-\$19,157	10% of > \$16,740	\$16,741-\$19,157	10% of > \$16,740	\$16,741-\$19,157	10% of > \$16,740
	> \$17,604	1.5	> \$19,157	1.5	> \$19,157	1.5	> \$19,157	1.5
<b>Low Income Tax Offset</b>	\$0-\$21,600	Amount \$235	\$0-\$25,000	Amount \$600	\$0-\$30,000	Amount \$750	\$0-\$30,000	Amount \$750
	\$21,601-\$27,475	less 4% of > \$21,600	\$25,001-\$40,000	less 4% of > \$25,000	\$30,001-\$48,750	less 4% of > \$30,000	\$30,001-\$48,750	less 4% of > \$30,000
	> \$27,475	Nil	> \$40,000	Nil	> \$48,750	Nil	> \$48,750	Nil

(a) These standard income tax rates can be offset by a range of concessional arrangements, including the senior Australians tax offset, the spouse tax offset, the low income tax offset and the mature age worker tax offset.

(b) These standard Medicare levy rates apply to singles. Different concessional and penalty rates apply in certain circumstances.

## Fringe benefits tax

Fringe benefits tax is paid on non-salary benefits provided by employers to employees which are provided in place of, or in addition to, the salary and wages of employees.

The tax is payable by employers and is assessed on the value of the fringe benefits provided to employees or their associates. From 1 April 2006, fringe benefits tax has been levied at 46.5 per cent of the grossed-up taxable value of benefits, as calculated under the fringe benefits tax rules.

Following a reclassification in Government Finance Statistics reporting standards that was implemented at the 2006-07 Budget, fringe benefits tax includes revenue collected from employees of Australian Government agencies.

## Taxation on superannuation funds

These taxes cover all income taxes generally paid by superannuation funds on behalf of their members on their contributions and earnings. A schedule of the superannuation funds tax rates for the period covered in this budget is provided in Table D2.

**Table D2: Superannuation funds tax rates**

	From 1/7/2005 Per cent	From 1/7/2006 Per cent	From 1/7/2007 Per cent
Superannuation funds			
Complying funds	15	15	15
Non-complying funds	47	45	45

## Superannuation funds taxation

Superannuation funds are taxed generally at a concessional rate of 15 per cent in relation to taxable contributions received, realised capital gains and investment income. Only two-thirds of a capital gain is included in assessable income if the asset is held for at least 12 months.

From 1 July 2007, funds will be taxed at a rate of 46.5 per cent (involving an additional 31.5 per cent for complying funds) with respect to contributions where no tax file number has been quoted to the fund. Funds will be able to claim back the additional tax, as an income tax offset, where a valid tax file number is quoted to the fund within a four year period.

Life insurers and retirement savings account (RSA) providers also conduct superannuation business. Tax on superannuation contributions, realised capital gains and investment income in life insurers and RSA providers is levied at the same rates as applies to superannuation funds but is paid through the company income tax system.

## Superannuation surcharge

The superannuation surcharge was abolished with effect from 1 July 2005 and does not apply after the 2004-05 financial year. However, assessments of surcharge and amended assessments continue to be issued in respect of the 2004-05 and earlier financial years. Interest will still accrue on any surcharge debt an individual has incurred.

## Company and other related income taxation

These revenue heads broadly cover all income taxes paid by corporate type entities. A schedule of the company income tax rates for the period covered in this budget is provided in Table D3.

**Table D3: Company and other related income tax rates**

	From 1/7/2005	From 1/7/2006	From 1/7/2007
	Per cent	Per cent	Per cent
Company tax	30	30	30
Petroleum resource rent tax	40	40	40

### Company income taxation

Company income taxation includes all income taxes paid by companies, including incorporated and unincorporated associations, limited partnerships and some corporate unit trusts and public trading trusts.

Generally, every resident company that derives assessable income (including capital gains), whether sourced within or outside of Australia, and every non-resident company that derives assessable income from Australian sources is required to pay company tax.

### Petroleum resource rent tax

Petroleum resource rent tax is levied at a rate of 40 per cent on taxable profit in respect of offshore petroleum projects other than some of the North-West Shelf production areas, which are subject to excise (included in excise on petroleum and other fuel products) and royalties. The amount paid is deductible from a company's taxable income when determining its company tax liability.

## INDIRECT TAXATION

### Excise and customs duty

#### Excise duty

The major categories of excisable products are petroleum and other fuel products, crude oil, oils and lubricants, tobacco and alcoholic beverages (other than wine). Equivalent duties on identical imported products are imposed through, and reported under, customs duty.

## Statement 5: Revenue

Petroleum and other fuel excise includes excise on petrol (gasoline), diesel, fuel ethanol, biodiesel, aviation gasoline, aviation kerosene, fuel oil, heating oil and kerosene. It is imposed at specific rates per litre of product.

- Petrol includes unleaded petrol and lead replacement petrol (which replaced leaded petrol but is taxed at the unleaded petrol rate).
- All revenue from excise duty on aviation gasoline and aviation kerosene contributes to the funding of aviation activities undertaken by the Civil Aviation Safety Authority. The rates of excise applying to aviation fuels are adjusted, as necessary, depending on the funding requirements of those activities.

Crude oil excise provides a return to the community for the exploitation of its natural resources. The crude oil excise regime applies to:

- production from offshore fields in the North-West Shelf production licence areas that are not subject to petroleum resource rent tax; and
- production from onshore fields and fields in coastal waters.

The rate of excise varies according to the quantity of crude oil sold, the sale price of the crude oil, and the dates of discovery and development of the oil field.

Other excise is derived from beer, spirits, other alcoholic beverages (other than wine) and tobacco products.

- For beer, spirits and other alcoholic beverages, excise is imposed on the alcohol content. The excise rate on beer in containers greater than 48 litres (draught beer) is lower than for other beer.
  - Beer for personal consumption (non-commercial beer) brewed in commercial facilities attracts duty at a reduced rate, equivalent to 7 per cent of the applicable beer excise.
- Excise is imposed on a *per stick* basis for cigarettes that do not exceed 0.8 grams (actual tobacco content) and on a *per kilogram* basis for other tobacco products.

Wine is not subject to excise, but is subject to the wine equalisation tax.

### Excise indexation

The excise rates for petroleum products and oils and lubricants are no longer indexed. Excise indexation for petroleum products was removed in March 2001.

The rates of duty for other excisable products are adjusted every August and February in line with half-yearly consumer price index (CPI) movements (Table D4). If the



change in the CPI is negative, the excise rate is not reduced. Instead the decline is carried forward to be set off against the next positive CPI movement.

**Table D4: Excise rates**

Commodity	Rates	Rates	Rates	Rates
	applying from 1 Aug 2005 \$	applying from 1 Feb 2006 \$	applying from 1 Aug 2006 \$	applying from 1 Feb 2007 \$
Petroleum and other fuel products (per litre)				
Gasoline	0.38143	0.38143	0.38143	0.38143
Diesel	0.38143	0.38143	0.38143	0.38143
Ethanol and Biodiesel	0.38143	0.38143	0.38143	0.38143
Blends of the above	-	-	0.38143	0.38143
Aviation gasoline(a)	0.03114	0.02854	0.02854	0.02854
Aviation kerosene(a)	0.03151	0.02854	0.02854	0.02854
Other Petroleum Products(b)	-	-	0.38143	0.38143
Fuel oil(c)	0.07557	0.07557	-	-
Heating oil and kerosene (for burner use)(c)	0.07557	0.07557	-	-
Greases (per kilogram)	0.05449	0.05449	0.05449	0.05449
Oils and lubricants, excluding greases (per litre)	0.05449	0.05449	0.05449	0.05449
Beer (per litre of alcohol over 1.15 per cent)				
Draught beer, low strength	6.24	6.33	6.49	6.54
Draught beer, mid strength	19.60	19.89	20.39	20.55
Draught beer, high strength	25.65	26.03	26.68	26.89
Other beer, low strength	31.26	31.73	32.52	32.78
Other beer, mid strength	36.43	36.98	37.90	38.20
Other beer, high strength	36.43	36.98	37.90	38.20
Non-commercial, low strength(d)	-	-	2.28	2.30
Non-commercial, mid and high strength(d)	-	-	2.64	2.66
Other beverages, not exceeding 10 per cent alcohol content (per litre of alcohol)	36.43	36.98	37.90	38.20
Potable spirits (per litre of alcohol)				
Brandy	57.62	58.48	59.94	60.42
Other spirits, exceeding 10 per cent alcohol conter	61.71	62.64	64.21	64.72
Cigarettes, cigars and tobacco (tobacco content of 0.8 grams or less per stick)	0.22915	0.23259	0.2384	0.24031
Tobacco products (per kilogram)	286.44	290.74	298.01	300.39

(a) Aviation fuel rates reduced to \$0.02854 per litre with effect from 1 November 2005.

(b) Excise rates for these fuels increased to \$0.38143 on 1 July 2006.

(c) Excise rates for these fuels increased to \$0.38143 on 1 July 2006, and have been subsequently identified as components of other petroleum products.

(d) As of 1 July 2006, non-commercial beer was explicitly identified in the *Excise Tariff Amendment (Fuel Tax Reform and Other Measures) Act 2006*, with introductory rates of \$2.22 per litre for low strength beer and \$2.58 per litre for mid and high strength beer before the rate was indexed on 1 August 2006.

## Customs duty

Customs duty is imposed as a percentage of the value of the imported good and/or on a volumetric basis (where duty is applied per unit of quantity) for excise equivalent products. In general, other dutiable goods attract a general tariff rate of 5 per cent.

Tariffs on passenger motor vehicles and textile, clothing and footwear account for around one-third of the total duty collected. Approximately 40 per cent of customs duty revenue is derived from duty imposed on imports of petroleum products, tobacco, beer and spirits, which is akin to excise duty on these items.

**Table D5: Tariff rates**

	Applying before 1 January 2005	Applying from 1 January 2005	Applying from 11 May 2005
	Per cent	Per cent	Per cent
General tariff	5	5	5
Passenger motor vehicles	15	10	10
Textiles clothing and footwear			
Clothing and finished textiles	25	17.5	17.5
Cotton sheeting, fabric, carpet and footwear	15	10	10
Sleeping bags, table linen and footwear parts	10	7.5	7.5
Tariff concession order			
Consumer goods	0	0	0
Other (business inputs)	3	3	0

### Other taxation

#### Wine equalisation tax

All wines, meads, perries, ciders and sakes are subject to a wine equalisation tax (WET) of 29 per cent on the wholesale value of the goods. The tax was introduced as part of *The New Tax System* to offset the removal of the previous wholesale sales tax on wine and the application of the goods and services tax. The WET was set at a rate to ensure that the price of cask wine need only increase by the estimated general price rise.

Unlike alcohol excises, the wine equalisation tax is an *ad valorem* tax. It is calculated at a rate of 29 per cent of the final wholesale price or, in certain other permitted circumstances, of a nominal wholesale value calculated as 50 per cent of the retail price, or alternatively at the average wholesale price for identical wine.

From 1 October 2004, a rebate has been payable on the first \$290,000 in wine equalisation tax paid annually by any producer or producer group. This rebate increased to \$500,000 from 1 July 2006.

#### Luxury car tax

The luxury car tax was introduced as part of *The New Tax System* to maintain a tax differentiation between luxury vehicles and other vehicles sold in Australia.

The luxury car tax applies at a rate of 25 per cent for every dollar over the luxury car threshold. The current luxury car threshold is \$57,009. The threshold is indexed annually using the motor vehicle purchase component of the CPI, which is composed of observed price movements for new vehicles sold in Australia.

#### Agricultural levies

Agricultural levies and charges are used to fund industry activities, such as research and development, marketing and promotion, residue testing, and animal health programmes.

The need for a levy is usually identified by the industry itself and the levy is generally collected at the first point of sale of the primary produce or point of further processing.

All levies and charges are paid into the Consolidated Revenue Fund without deduction and then disbursed to fund the relevant programme.

#### **Other taxes**

The major contributors to this category are the passenger movement charge and import processing and depot charges administered by the Australian Customs Service.

Other contributors include broadcasting licence fees, which are payable by all commercial radio and television licensees and are calculated as a percentage of licensees' gross earning for the previous year. Other taxes also include the Superannuation Guarantee Charge and the Universal Service Obligation levy.

### **Non-taxation revenue**

#### **Sales of goods and services**

This category consists of revenue from the direct provision of goods and services by the Australian Government general government sector, including reimbursement of GST administration costs received from the states.

#### **Dividends**

The main sources of dividends are the Australian Government's business enterprises, the Reserve Bank of Australia (RBA) and the Future Fund. Dividend payments from the RBA can be volatile, as they are sensitive to movements in interest rates and the exchange rate.

#### **Interest**

##### **Interest from other governments**

This category mainly consists of revenue from the States for interest on General Purpose and Specific Purpose borrowings.

The Australian Government receives interest payments from the States in respect of General Purpose borrowings made on behalf of the States under the State Governments' Loan Council Programme (and from the Northern Territory in respect of advances made under similar General Purpose capital assistance arrangements). Payments relating to these advances are made, in turn, by the Australian Government to bond holders.

Interest from the States on General Purpose borrowings is declining as a result of the June 1990 Loan Council decision that the States and Territories make additional payments to the Australian Government each year to facilitate the redemption of all maturing Australian Government securities issued on their behalf. The reduction in

## *Statement 5: Revenue*

interest revenue from the States is matched by a reduction in public debt interest expenses.

The Australian Government also receives interest on Specific Purpose borrowings to the States, including on advances made under the Commonwealth-State Housing Agreements, States (Works and Housing) Assistance Acts, Northern Territory Housing Advances, and by the Australian Capital Territory on debts assumed upon self-government.

### **Interest from other sources**

This item includes interest income on Australian Government cash balances and on other financial assets including assets held by the Future Fund. It excludes swap transactions entered into as part of the Australian Government's debt management strategy, as they are reported separately in the Statement of Other Economic Flows under Government Finance Statistics standards. The Australian Office of Financial Management is responsible for the management and reporting of the Australian Government's net debt portfolio.

### **Other sources of non-taxation revenue**

Other non-taxation revenue includes petroleum royalties paid by producers operating in the Timor Sea and the North-West Shelf oil and gas fields, Child Support Trust Revenue (collected by the Child Support Agency) and seigniorage from circulation coin production.

## **APPENDIX E: TAXATION REVENUE RECOGNITION**

There are different methods of accounting for taxation revenue. Each method of revenue recognition results in estimates and outcomes that may be significantly different to those produced using other methods.

Accrual accounting was introduced by the Australian Government for the 1999-2000 Budget. Before then, all estimates and outcomes were reported only on a cash basis. Cash recognition still plays a role in budgeting and outcomes reporting, with both accrual and cash taxation revenue estimates and outcomes reported in the budget papers. Furthermore, there are also different methods for recognising accrual revenue.

This appendix provides an explanation of the different revenue recognition methods that apply to the various taxation revenue heads.

### **Revenue recognition methods**

#### **Cash recognition**

Under cash recognition, which is also referred to as receipts recognition, taxation receipts are accounted for at the time a taxation payment is received by the relevant authority. The receipt may be a different amount than the taxation liability and result in a subsequent amended (refund or debit) assessment. The payment may also be received in a different period from which the taxation liability relates.

Cash recognition is an integral part of an accrual accounting framework because of its use in the cash flow statement and to provide additional information about the structure of taxation. Cash data are also available over a much longer period – accrual data are only available since 1999-2000 – and are therefore often used for time series analysis.

#### **Accrual revenue recognition**

The AAS and GFS standards for accrual accounting (refer to Appendix A in Statement 2 for an explanation of these reporting standards) require that taxation revenue be recognised in the reporting period in which the underlying economic transaction occurs, such as when the taxpayer earns the income that is subsequently subject to taxation. This is known as the Economic Transactions Method (ETM). However, the standards permit reporting using an alternative approach when there is an inability to reliably measure taxation revenues using the ETM approach.

Currently, ETM revenue has been determined not to be a reliable measure for several significant revenue heads – individuals and other withholding taxation, company income taxation and superannuation taxation. These revenue heads, which collectively account for the majority of total revenue, are recognised using the Taxation Liability Method (TLM) rather than ETM.

## *Statement 5: Revenue*

Under TLM, taxation revenue is accounted for at the time a taxpayer makes a payment or self assessment or when an assessment of a taxation liability is raised by the relevant authority. This method retains some elements of cash revenue recognition – for example, revenue is recognised when cash payment occurs prior to an assessment being raised.

The point of revenue recognition under ETM and TLM can sometimes be in different periods – for example, a taxation return lodged in October 2005 for the 2004-05 income year, and which results in a new taxation liability or a refund, would be recognised in the 2004-05 financial year under ETM and in the 2005-06 financial year for TLM. In this case, ETM requires that outcomes for 2004-05 include an estimation of liabilities or revenue relating to activities in 2004-05 that are likely to be identified in subsequent periods. TLM outcomes do not incorporate this estimation, as only currently identified taxation liabilities are reported. Consequently, aggregate TLM revenue outcomes are usually known with relative certainty, although there can be estimation issues involved in allocating aggregate amounts between different heads of revenue.

In addition, AAS and GFS treat prior period adjustments for revised estimates to ETM revenue outcomes differently. GFS requires that a time series of outcomes is maintained, such that prior year outcomes are continually adjusted as new information comes to light. This is consistent with the AAS treatment of changes in accounting policy or correction of errors which are recast in prior periods. In contrast, AAS requires that prior period adjustments as a result of revised estimates are not back-cast, and instead are reflected in the current period results. This difference in treatment reflects the different purpose in each of the standards:

- GFS ETM data may be more accurate over the long term, and may therefore be better for economic analysis, but have the disadvantage of constantly being revised; whereas
- AAS ETM outcomes are finalised at the end of each financial year (although, as noted above, changes in accounting policy and corrections of errors are recast in prior periods), and this greater level of certainty may be better for budgeting and reporting.

### **History of accrual revenue recognition**

From 1999-2000 to 2005-06, all accrual taxation revenue has been recognised in the Budget on a TLM basis. From the 2006-07 Budget, ETM revenue recognition has been adopted for all revenue heads where the ETM revenue can be reliably estimated. This generally occurs where the economic activity, the identification of the liability and the receipt of the payment all occur with little or no lag – and consequently, the ETM and TLM (and cash) recognition methods produce relatively consistent results.

TLM revenue recognition continues to be used where ETM estimates are considered unreliable. At present, this is limited to individuals and other withholding taxation, company income taxation and superannuation taxation, but this will be reviewed periodically. ETM estimates and outcomes are inherently more volatile for these revenue heads, mainly because they incorporate the estimation of significant levels of liabilities likely to be identified in future periods. This additional level of estimation would increase the likelihood of differences between the revenue estimates and outcomes, with consequential impacts on the budget balances. This greater level of uncertainty would make the implementation of fiscal policy more problematic than if these revenue heads continue to be recognised using TLM.

### Differences between the accrual and cash taxation revenue estimates

**Table E1: Estimates of taxation revenue on an accrual and cash basis**

	Estimates		Projections		
	2006-07 \$b	2007-08 \$b	2008-09 \$b	2009-10 \$b	2010-11 \$b
Taxation revenue (accrual)	220.5	231.1	244.1	256.6	267.3
Taxation receipts (cash)	216.4	226.9	239.6	252.1	262.8
<b>Difference (accrual less cash)</b>	<b>4.1</b>	<b>4.2</b>	<b>4.5</b>	<b>4.6</b>	<b>4.4</b>
<i>Memorandum items:</i>					
ACIS(a)	0.4	0.4	0.4	0.3	0.2
Net receivables	0.7	0.9	0.9	1.0	0.9
Other	2.9	3.0	3.2	3.2	3.2
<b>Total</b>	<b>4.1</b>	<b>4.2</b>	<b>4.5</b>	<b>4.6</b>	<b>4.4</b>

(a) Automotive Competitiveness and Investment Scheme.

### Automotive Competitiveness and Investment Scheme

The Automotive Competitiveness and Investment Scheme (ACIS) operates by providing customs duty credits to exporters of Australian automotive products. The credits can be offset against future customs duty on specific imports.

Under accrual accounting, an expense is recognised when the ACIS credits are issued. Later, specified imports generate a customs duty liability and customs duty accrual revenue is recognised. However, no customs duty receipts are received as the redemption of the ACIS credits offsets the customs duty liability. Therefore, the redemption of the credits results in an increase in the difference between the accrual and cash estimates for customs duty. ACIS credits account for \$400 million of the difference between the accrual and cash estimates in 2006-07.

## Other

This category consists of other timing differences between the recognition of accrual revenue and cash receipts as well as instances where revenue has been recognised but payment is no longer expected to be received. For example:

- *receivables* arise where taxation liabilities are recognised in one period, but the taxpayer is not expected to pay the liability until a later period;
- *remissions* occur where taxation liabilities are recognised, but circumstances are taken into account and the Commissioner of Taxation reduces the amount of various penalties and interest required to be paid;
- a taxation liability may be *written-off* where the previously recognised revenue is no longer expected to be received;
- a *credit amendment* may be issued where a taxation assessment is amended (for example, where a court decision leads to a change in the interpretation of the taxation laws); and
- an *economic transactions method adjustment* for those revenue heads on an ETM basis, when the economic activity giving rise to a taxation liability takes place in one financial year and the payment is received in a subsequent financial year.



## APPENDIX F: NET TAX THRESHOLDS

The impact of taxes on Australian households should be assessed alongside the level of assistance going to families from the government, either as offsets to tax or through direct payments.

Since 1996, the Government has substantially increased the level of Family Allowance and Family Tax Benefit provided to families (from around 1.3 per cent of GDP to 1.6 per cent of GDP in 2006-07). In particular, the Government has increased the real disposable income of families through the introduction of measures such as the Family Tax Benefit and the Baby Bonus.

One way of illustrating the combined effect of cash transfers and tax for families is by showing the change in the real net tax threshold. The net tax threshold is the point at which taxes paid begin to exceed cash transfers received. Table F1 shows that the net tax threshold will have increased by more than 39 per cent in real terms between 1996-97 and 2007-08 for a range of families.

**Table F1: Increases in real net tax thresholds for families, <sup>(a)</sup> 1996-97 to 2007-08**

Family type(b)	Real net tax threshold		Per cent change
	1996-97	2007-08	
Sole parent	\$36,525	\$50,813	39.1
Single income couple with children	\$35,920	\$50,813	41.5
Dual income couple with children (75:25 split)	\$36,584	\$55,340	51.3
Dual income couple with children (60:40 split)	\$36,688	\$54,820	49.4
Dual income couple with children (67:33 split)	\$36,640	\$55,118	50.4

(a) The net tax threshold is the level of private income at which income tax paid first exceeds cash benefits received. Dollar amounts are calculated in 2007-08 prices.

(b) Families are assumed to have two children — one aged 3 years and the other aged 8 years. The numbers in brackets represent the share of wages of each working adult in couple families.

## APPENDIX G: AUSTRALIA'S TAX SYSTEM

### AUSTRALIA'S TAX SYSTEM COMPARED WITH THE OECD

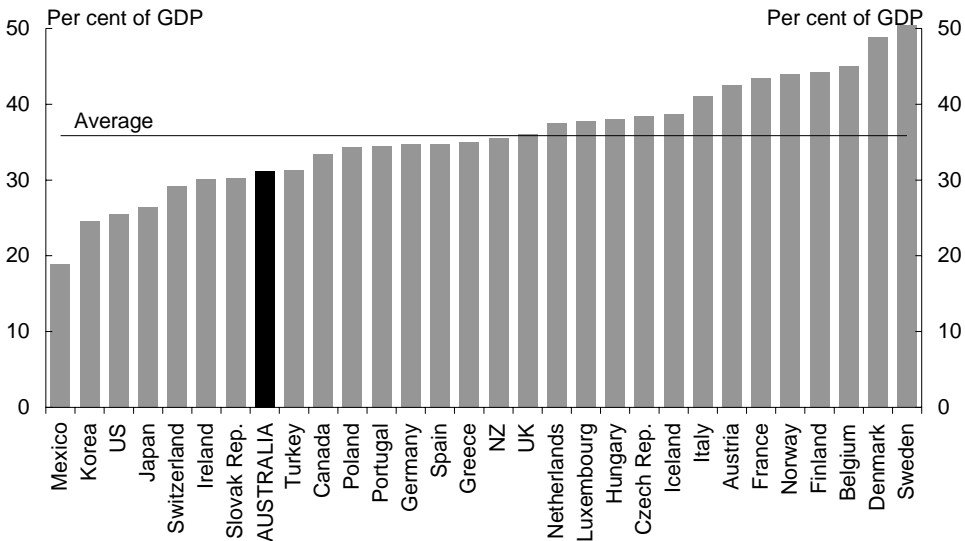
The analysis in this section includes the tax systems of all levels of government combined – national, state and local. Comparisons are provided with the tax systems of other OECD economies.

#### Tax burden

Australia's tax burden – defined as taxation as a proportion of GDP – is low by international standards. In 2004 (Australia's 2004-05 financial year), the latest year for which comparable international data are available, Australia had the eighth lowest tax burden of the OECD countries (Chart G1) and has typically ranked in the bottom third of countries since 1965.

- In 2004, Australia's tax burden was 31.2 per cent – below the OECD average of 35.9 per cent.

**Chart G1: Total tax burden for OECD countries, 2004<sup>(a)</sup>**



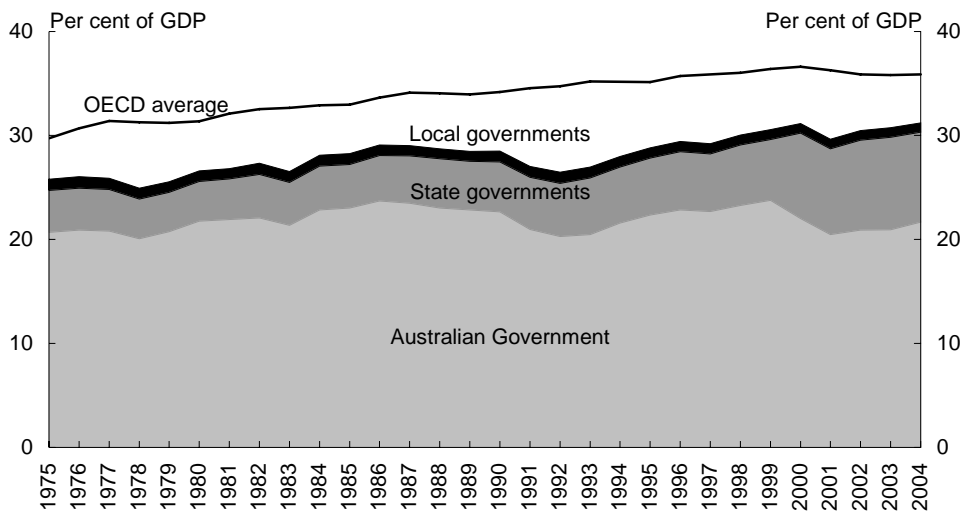
(a) The OECD's measure of the tax burden is the total taxation revenue of national, state and local governments expressed as a percentage of gross domestic product.

Source: OECD *Revenue Statistics*, 2006.

As part of Australia's largest tax reform, *The New Tax System*, which came into effect on 1 July 2000, the goods and services tax (GST) replaced the inefficient wholesales sales tax and state transaction taxes, and personal income taxes were substantially reduced. *The New Tax System* also reformed Commonwealth-State financial relations, with all GST revenue provided to the states. The tax burden of Australia's state governments increased from 5.9 per cent of GDP in 1999 to 8.2 per cent of GDP in 2000 with the introduction of the GST (Chart G2). Since 2000, the tax burden of the state governments has increased to 8.6 per cent of GDP in 2004. The Australian Government's tax burden has decreased from 22 per cent in 2000 to 21.7 per cent in 2004.

**Chart G2: The Australian tax burden by government sector**

Total taxation revenue as a proportion of GDP, 1975-2004



Source: OECD.

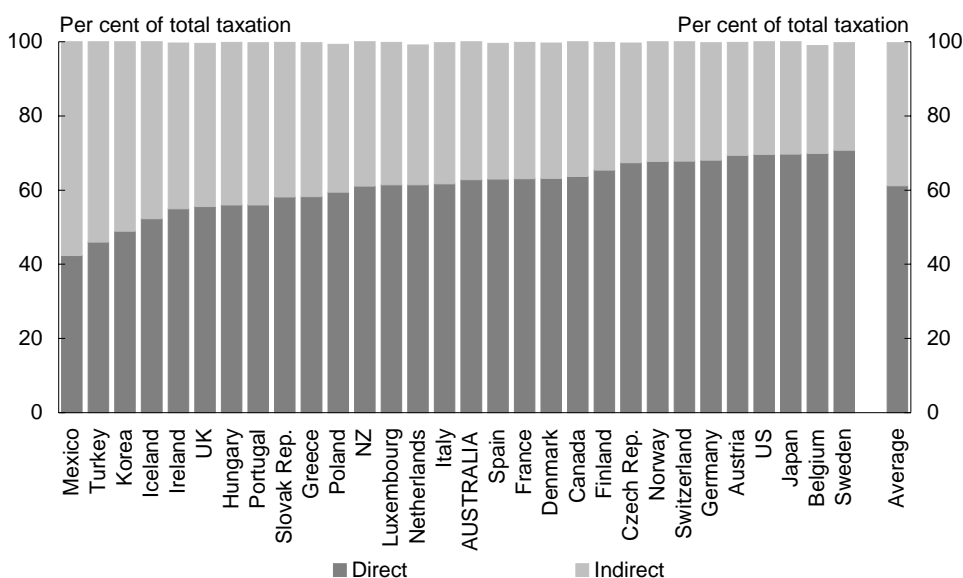
## Tax mix

The Australian tax mix is broadly similar to most OECD countries (Chart G3), although there are a few distinguishing features.

Like most countries, Australia raises the majority of its taxation revenue (62.8 per cent in 2004) from direct taxation, which is levied on incomes – wages, salaries, payrolls and profits. Countries with a higher reliance than Australia on direct taxation include Japan (69.7 per cent) and the United States (69.6 per cent).

The remaining 37.2 per cent of Australia’s taxation revenue is derived from indirect taxation, including the GST (value added tax), excise and customs duties, and property taxes. The OECD average is 38.6 per cent.

**Chart G3: Direct and indirect taxation revenue as a proportion of total taxation revenue for OECD countries, 2004**



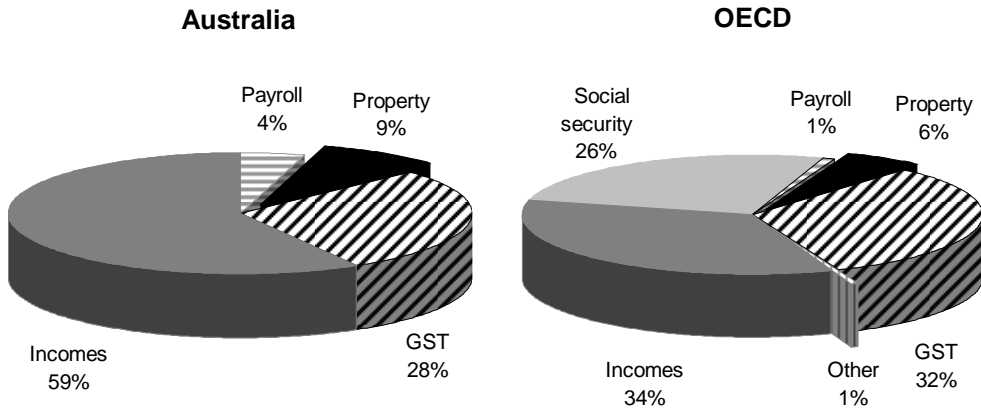
Source: OECD Revenue Statistics, 2006.

However, Australia’s composition of direct taxes differs from most OECD countries. For a significant number of countries, social security taxes are the largest source of direct taxation revenue, whereas Australia is one of two countries that do not levy social security taxes. When income taxes, payroll taxes and social security taxes are taken together, the share of Australia’s direct taxes in total taxation is broadly comparable with the OECD average (Chart G4).

Australia has the fourth lowest level of total taxation on personal income – which includes taxes on personal income, social security taxes and payroll taxes – in the OECD (Chart G5). Australia’s tax burden relating to these items (13.9 per cent of GDP) is significantly lower than the OECD average (19 per cent).

**Chart G4: Australia's tax mix compared with the OECD average<sup>(a)</sup>**

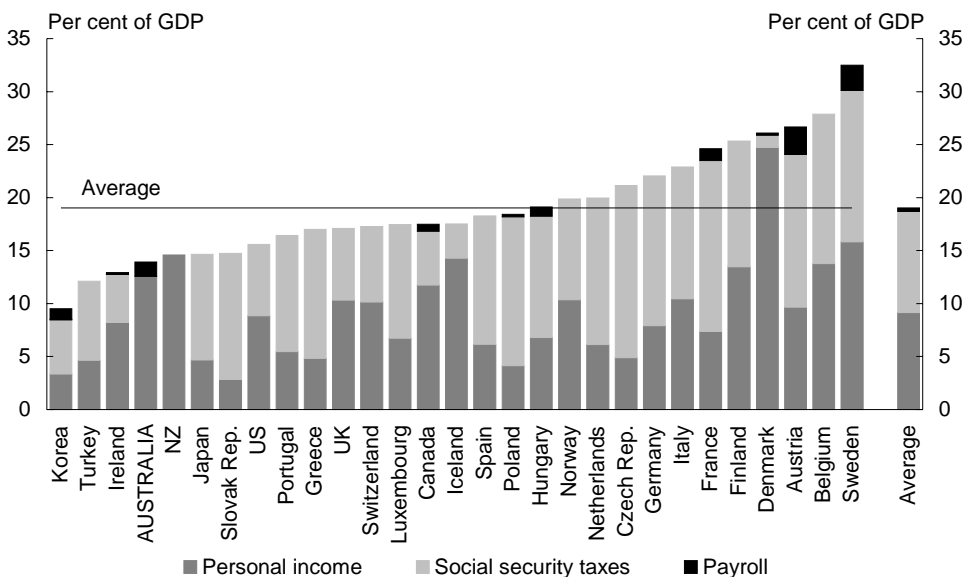
Direct and indirect taxation revenue as a proportion of total taxation revenue, 2004



(a) Social security taxes are payments to the government that are earmarked to provide social security benefits. They usually consist of two components — one withheld from employees' wages and the other paid by employers. Both components are treated by the OECD as a tax on the income of individuals because they form part of an employee's remuneration. Examples of social security benefits funded through social security taxes include: unemployment insurance benefits and supplements; accident, injury and sickness benefits; old age, disability and survivors' pensions; family allowances; reimbursements for medical and hospital expenses; and provision of hospital or medical services. Australia funds these types of government programmes through general taxation revenue rather than a specific social security tax.

Source: OECD Revenue Statistics, 2006.

**Chart G5: Components of direct taxation in respect of individuals and payrolls, 2004**



Source: OECD Revenue Statistics, 2006.

## AUSTRALIAN GOVERNMENT TAXATION

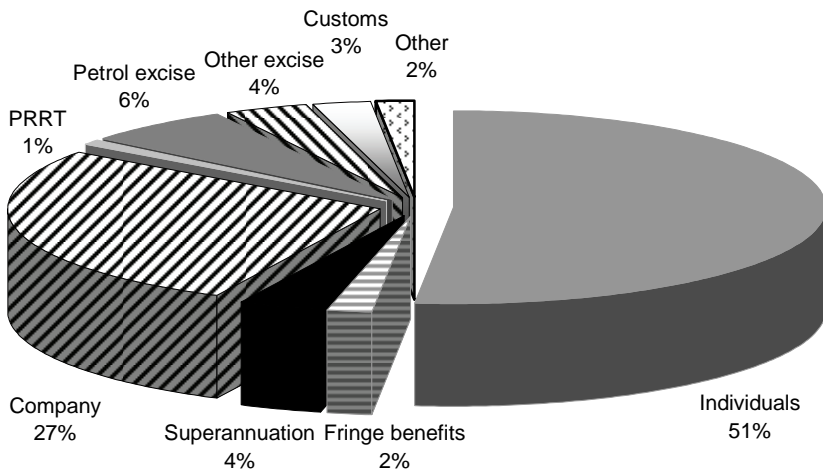
The analysis in the previous section included the tax systems of all levels of government combined. This section includes just the taxes of the Australian Government – that is, it excludes taxes imposed by state and local governments.

### Tax mix

The Australian Government's main source of revenue is from taxes on income. These represent around 85 per cent of total taxation revenue (Chart G6).

- Personal income tax, which is made up of gross income tax withholding, gross other individuals and refunds, accounts for 51 per cent of total taxation revenue. A further 4 per cent is from taxes levied on superannuation and 2 per cent is from taxes on fringe benefits payments.
- Company income tax accounts for 27 per cent of total taxation revenue.
- Most of the remaining taxation revenue is accounted for by excise and customs duties, which account for 13 per cent of total taxation revenue.

**Chart G6: Australian Government tax mix, 2007-08**



## Personal income tax distribution

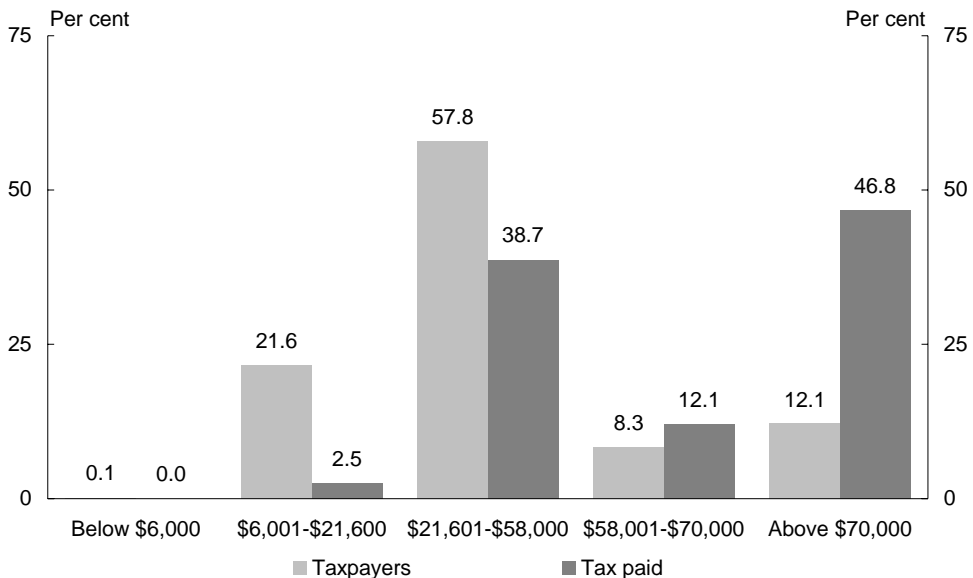
The personal income tax system is progressive – a larger share of the tax is borne by those individuals who are best placed to bear it, while those individuals who have limited means bear relatively little or no tax (Chart G7).

For the 2004-05 income year (the latest year for which tax return data is available from the Australian Taxation Office (ATO)), 47 per cent of personal income tax was collected from the 12 per cent of taxpayers who were in the top marginal tax bracket.

In comparison, the 22 per cent of taxpayers who earned less than \$21,600 in taxable income paid only 2.5 per cent of the tax burden.

The 66 per cent of middle income tax payers (in the \$21,601 to \$70,000 income range) paid 51 per cent of the tax burden.

**Chart G7: Personal income tax distribution for 2004-05**

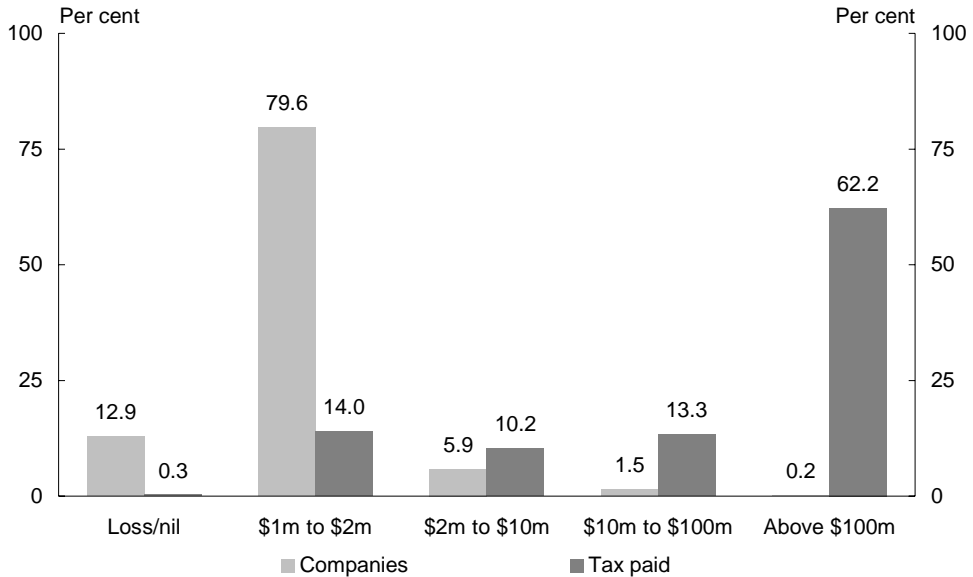


Source: Australian Taxation Office, *Taxation Statistics 2004-05*.

## Company income tax distribution

Most company income tax is paid by a relatively small group of large companies (Chart G8). For the 2004-05 income year (the latest year for which tax return data are available from the ATO), over three-quarters of company income tax was collected from the 2 per cent of incorporated taxpayers that earned more than \$10 million in total income.

**Chart G8: Company tax distribution for 2004-05**

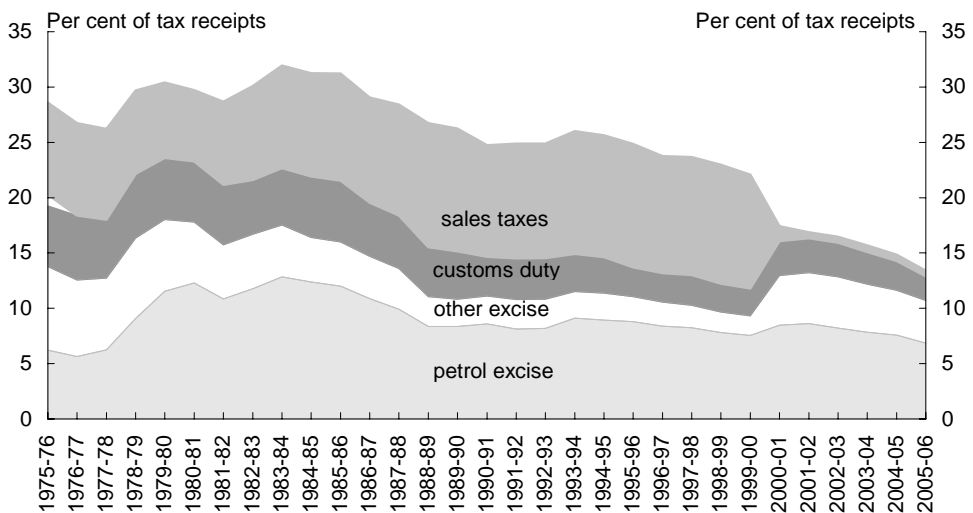


Source: Australian Taxation Office, *Taxation Statistics 2004-05*.

### Indirect taxes

The share of indirect taxes in total taxation receipts is in long term decline because some of the indirect tax bases do not grow as quickly as the income tax bases and because of policy decisions taken by governments to reform the indirect tax base (Chart G9).

**Chart G9: Australian Government indirect taxes**



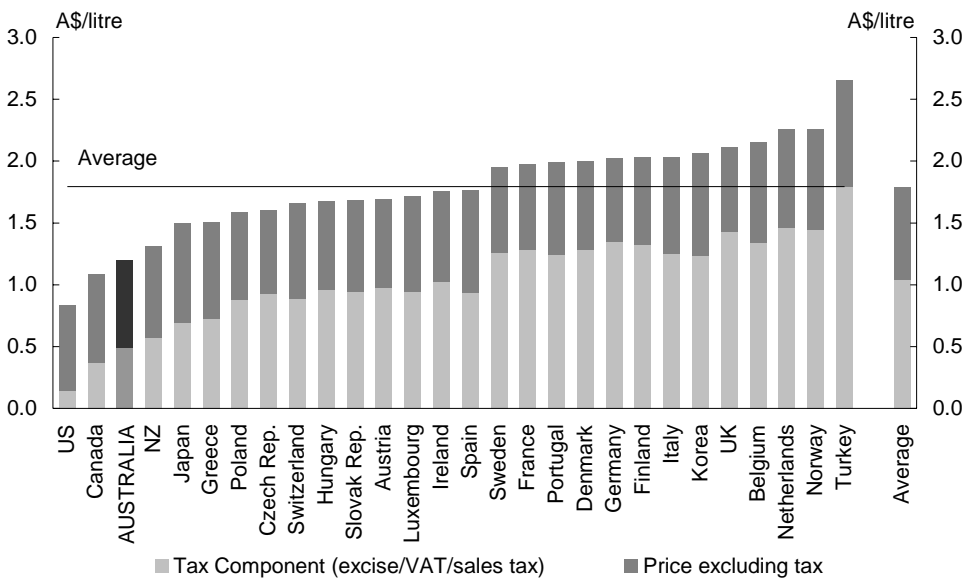
Source: Treasury.



With the abolition of wholesale sales tax, the removal of indexation from petroleum excise and trade liberalisation, indirect taxation receipts are expected to continue to decline in relative importance for the Australian Government.

The rate of excise duty on unleaded petrol in Australia is 38.1 cents per litre. It has been at this level since the indexation of petrol excise rates to the consumer price index (CPI) ceased in March 2001. The impact of excise duty on unleaded petrol, combined with the impact of general consumption taxes (VAT, GST and sales taxes), is shown in Chart G10 for most OECD countries. Under this combined measure, which illustrates the total tax impost on consumers, the average level of tax included in petrol prices for the OECD countries shown was A\$1.04 per litre in the first quarter of 2006. In comparison, the level of tax included in unleaded petrol prices in Australia for this quarter was less than half this amount at A\$0.49 per litre – the third lowest of the OECD countries for which comparable data are available.

**Chart G10: Unleaded petrol prices<sup>(a)</sup>**  
 OECD countries, first quarter 2006



(a) Converted to Australian dollars using US/Australian dollar exchange rate from the first quarter of 2006. Tax data is for the first quarter of 2006. Data for Iceland and Mexico was unavailable. Source: Australian Treasury estimates based on International Energy Agency and OECD data.

## APPENDIX H: TAX EXPENDITURES

This appendix contains an overview of the cost of tax expenditures provided to taxpayers through the tax system.

Tax expenditures provide a benefit to a specified activity or class of taxpayer. They can be delivered as a tax exemption, tax deduction, tax offset, reduced tax rate or deferral of a tax liability. The Government can use tax expenditures to allocate resources to different activities or taxpayers in much the same way that it can use direct expenditure programmes. For this reason, and noting their direct impact on the fiscal balance, these concessions are generally called tax expenditures.

The data reported in this appendix are consistent with tax expenditure data reported in the *2006 Tax Expenditures Statement* published in December 2006. Care needs to be taken when analysing tax expenditure data: see section 2.1 of the *2006 Tax Expenditures Statement* for a detailed discussion.

Table H1 contains estimates of total tax expenditures for the period 2003-04 to 2010-11.

**Table H1: Aggregate tax expenditures**

Year	Superannuation \$m	Other tax expenditures \$m	Net value of tax expenditures \$m	Tax expenditures
				as a proportion of GDP %
2003-04 (est)	13,540	20,015	33,555	4.0
2004-05 (est)	16,600	22,693	39,293	4.4
2005-06 (est)	18,080	24,064	42,144	4.4
2006-07 (proj)	17,255	24,064	41,319	4.0
2007-08 (proj)	20,250	26,420	46,670	4.3
2008-09 (proj)	22,230	27,692	49,922	4.4
2009-10 (proj)	23,940	28,756	52,696	4.4
2010-11 (prelim)	25,780	30,206	55,986	4.5

Table H1 shows that, in the *2006 Tax Expenditures Statement*, measured tax expenditures as a proportion of GDP were projected to fall from 4.4 per cent in 2005-06 to 4.0 per cent in 2006-07, mainly as a result of the impact of personal income tax rate reductions on the tax expenditures estimates. The ratio was projected to increase to 4.4 per cent by 2009-10, mainly because of changes in superannuation tax arrangements including the *Simplified Superannuation reforms*.

Table H2 is a list of the major tax expenditures in 2006-07.

**Table H2: Major tax expenditures 2006-07**

	\$m
<b>Large positive tax expenditures</b>	
Concessional taxation of funded superannuation	17,110
Capital gains tax discount for individuals and trusts	4,980
Exemption of Family Tax Benefit Parts A and B, including expense equivalent	2,430
Senior Australians' Tax Offset	1,870
Tax offset for recipients of certain social security benefits, pensions or allowances	1,150
Application of statutory formula to value car benefits	1,070
Exemption of certain income support benefits, pensions or allowances	970
Exemption of 30 per cent private health insurance refund, including expense equivalent	950
Concessional rate of excise levied on aviation gasoline and aviation turbine fuel	805
Exemption from excise for 'alternative fuels'	750
Tax offset for low income earners	640
Deduction for gifts to approved donees	640
<b>Large negative tax expenditures</b>	
Higher rate of excise levied on cigarettes with less than 0.8 grams of tobacco	-1,355
Accelerated depreciation allowance for plant and equipment	-840



## STATEMENT 6: EXPENSES AND NET CAPITAL INVESTMENT

Statement 6 presents estimates of general government expenses and net capital investment on a Government Finance Statistics (GFS) accrual accounting basis. The statement includes information on the allocation of Australian Government funds to the various functions of government. These functions are based on an international standard classification of functions of government that is incorporated into the GFS framework.

The first part of this statement provides information on trends in estimated expenses while the second part presents trends in net capital investment estimates. Estimates are on an Australian Government general government sector basis.

Statement 6 focuses on short to medium-term trends in estimated expenses and their underlying determinants. Consistent with this emphasis, much of Statement 6 explains year on year changes across the forward estimates period.

Further information on portfolio and agency expenses, capital movements, major outputs and administered items may be found in the respective Portfolio Budget Statements.

The main trends are:

- general government expenses are forecast to remain steady at 21.5 per cent of GDP in 2007-08 and then increase to 21.8 per cent of GDP in 2010-11;
- in 2007-08, the social security and welfare, health, defence and education functions together account for approximately 75 per cent of total expenses, with social security and welfare accounting for approximately 41 per cent of total expenses;
- in real terms, the strongest growth across the budget and forward estimates is expected to occur in the defence, general public services, education, social security and welfare, and health functions, with growth in estimated expenses for other functions either being largely stable or declining; and
- net capital investment in 2007-08 largely reflects continued investment in various construction projects, information technology upgrades and Department of Defence capital works projects.

# CONTENTS

<b>Overview .....</b>	<b>6-3</b>
<b>General government expenses.....</b>	<b>6-3</b>
Reconciliation of expenses since the 2006-07 Budget .....	6-3
Estimated expenses by function .....	6-4
Defence .....	6-8
Public order and safety .....	6-9
Education .....	6-10
Health .....	6-12
Social security and welfare .....	6-15
Housing and community amenities .....	6-17
Recreation and culture .....	6-18
Fuel and energy .....	6-19
Agriculture, forestry and fishing.....	6-20
Mining, manufacturing and construction .....	6-21
Transport and communication.....	6-22
Other economic affairs .....	6-24
Other purposes.....	6-25
<b>General government net capital investment.....</b>	<b>6-27</b>
Reconciliation of net capital investment since the 2006-07 Budget.....	6-27
Net capital investment estimates by function.....	6-28
<b>Appendices</b>	
Appendix A: Expense by function and sub-function.....	6-31
Appendix B: The contingency reserve .....	6-34

# STATEMENT 6: EXPENSES AND NET CAPITAL INVESTMENT

## OVERVIEW

Australian Government general government sector expenses are expected to grow in real terms in 2007-08 and over the forward estimates period to 2010-11 (Table 1). Expenses are forecast to remain steady at 21.5 per cent of GDP in 2007-08, and are projected to increase to 21.8 per cent of GDP in 2010-11.

**Table 1: Estimates of expenses**

	2006-07		2007-08	2008-09	2009-10	2010-11
	MYEFO(a)	Revised	Estimate	Projections		
<b>Total expenses (\$b)</b>	<b>219.2</b>	<b>221.6</b>	<b>235.6</b>	<b>247.5</b>	<b>259.7</b>	<b>272.7</b>
Real growth on						
previous year%(b)	1.6	2.7	3.7	3.9	3.7	2.8
Per cent of GDP	21.8	21.5	21.5	21.6	21.8	21.8

(a) As published in the *Mid-Year Economic and Fiscal Outlook 2006-07*.

(b) Real growth is calculated using the non-farm GDP deflator.

## GENERAL GOVERNMENT EXPENSES

### Reconciliation of expenses since the 2006-07 Budget

Table 2 provides a reconciliation of expense estimates between the 2006-07 Budget, *Mid-Year Economic and Fiscal Outlook 2006-07* (MYEFO) and the 2007-08 Budget, showing the effect of policy decisions and economic parameter and other variations.

**Table 2: Reconciliation of expense estimates**

	Estimates		Projections	
	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m
<b>2006-07 Budget expenses</b>	<b>219,730</b>	<b>230,556</b>	<b>240,910</b>	<b>252,592</b>
<b>Changes between 2006-07 Budget and MYEFO</b>				
Effect of policy decisions(a)	1,969	3,648	2,986	2,868
Effect of economic parameter variations				
Unemployment benefits	-507	-348	-382	-503
Prices and wages	-235	542	874	691
Interest and exchange rates	-60	-50	-94	-48
<i>Total economic parameter variations</i>	<i>-802</i>	<i>144</i>	<i>398</i>	<i>139</i>
Public debt interest	103	47	44	51
Programme specific parameter variations	-1,085	-1,309	-1,510	-1,717
Slippage in 2006-07 Budget decisions	0	0	0	0
Other variations	-740	-764	-335	-1,264
<b>Total variations</b>	<b>-554</b>	<b>1,766</b>	<b>1,583</b>	<b>76</b>
<b>2006-07 MYEFO expenses</b>	<b>219,175</b>	<b>232,322</b>	<b>242,493</b>	<b>252,669</b>
<b>Changes between MYEFO and 2007-08 Budget</b>				
Effect of policy decisions(a)	4,189	6,375	7,949	10,468
Effect of economic parameter variations				
Unemployment benefits	-2	-47	-171	-129
Prices and wages	165	926	863	883
Interest and exchange rates	6	-101	-118	-84
<i>Total economic parameter variations</i>	<i>168</i>	<i>778</i>	<i>574</i>	<i>670</i>
Public debt interest	-21	-9	16	20
Programme specific parameter variations	-915	-948	-1,230	-1,060
Slippage in 2006-07 Budget decisions	-60	0	0	0
Other variations	-912	-2,926	-2,313	-3,114
<b>Total variations</b>	<b>2,450</b>	<b>3,268</b>	<b>4,995</b>	<b>6,983</b>
<b>2007-08 Budget expenses</b>	<b>221,625</b>	<b>235,590</b>	<b>247,489</b>	<b>259,652</b>

(a) Excludes the public debt net interest effect of policy measures.

Discussion of the major changes between the 2006-07 MYEFO and the 2007-08 Budget, shown in the above table can be found in Statement 2 (in the section titled 'Variations in expense estimates'). Further information on expense measures can be found in Budget Paper No. 2, *Budget Measures 2007-08*.

### Estimated expenses by function

Table 3 sets out the estimates of Australian Government general government sector expenses by function for the period 2006-07 to 2010-11.



**Table 3: Estimates of expenses by function**

	Estimates		Projections		
	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m	2010-11 \$m
General public services	14,539	15,768	16,434	16,905	18,035
Defence	17,358	19,880	21,133	22,054	23,018
Public order and safety	3,314	3,670	3,741	3,780	3,762
Education	16,549	17,752	18,491	19,209	20,228
Health(a)	40,102	42,964	44,520	46,240	48,120
Social security and welfare(a)	93,215	96,450	100,733	104,751	108,936
Housing and community amenities	3,072	3,011	2,962	2,919	2,460
Recreation and culture	2,673	2,979	2,932	2,884	2,933
Fuel and energy	4,711	5,360	5,495	5,636	5,873
Agriculture, forestry and fishing	2,873	2,799	2,085	2,612	2,990
Mining, manufacturing and construction	1,884	2,029	2,018	1,949	1,843
Transport and communication	3,400	4,516	4,823	4,818	4,584
Other economic affairs	5,322	5,617	5,634	5,719	5,895
Other purposes	12,613	12,794	16,486	20,176	23,993
<b>Total expenses</b>	<b>221,625</b>	<b>235,590</b>	<b>247,489</b>	<b>259,652</b>	<b>272,669</b>

(a) There has been a reclassification of some expenditure administered by the Department of Families, Community Services and Indigenous Affairs that was previously reported under the health assistance to the aged sub-function (health) to the assistance to the aged sub-function (social security and welfare).

Major movements within the estimates of expenses by function between 2006-07 and 2007-08, and across the forward estimates, include increases in the following functions:

- **Social security and welfare**, due to the continued effect of the indexation of payments and changes to the aged pension asset taper rate, together with demographic and social factors such as the ageing of the population that affect demand driven programmes;
- **Health**, due to a continued growth in the use of medical services over the forward estimates period and increasing costs for the provision of medical services;
- **Defence**, due to continued funding increases associated with the Government's *White Paper Defence 2000 – Our Future Defence Force* and more recent new measures, including: the Hardened and Networked Army – Phase 2, Heavy Air Lift Capability, the purchase of 24 F/A-18F Super Hornets, military personnel and recruitment and retention initiatives, together with funding in 2007-08 for the major Australian Defence Force deployments in Iraq, Afghanistan and East Timor; and
- **Education**, due to increased schools and higher education funding reflecting increases under the 2007-08 Budget together with increased Quadrennial schools funding provided under the *Schools Assistance Act 2004*, the *Our Universities – Backing Australia's Future* package and the Commonwealth Grants Scheme.

Estimates presented in Table 3 above are explained in greater detail for each individual function in the following pages.

## General public services

**Table 4: Summary of expenses**

	Estimates		Projections		
	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m	2010-11 \$m
Legislative and executive affairs	881	1,039	854	875	1,031
Financial and fiscal affairs	4,991	5,244	5,527	5,621	5,872
Foreign affairs and economic aid	3,183	3,693	4,275	4,528	5,197
General research	2,457	2,599	2,593	2,647	2,595
General services	655	706	649	642	669
Government superannuation benefits	2,371	2,487	2,536	2,593	2,672
<b>Total general public services</b>	<b>14,539</b>	<b>15,768</b>	<b>16,434</b>	<b>16,905</b>	<b>18,035</b>

### Nature of expenses and major trends

The general public services function includes expenses relating to the organisation and operation of government. This includes: expenses related to the Parliament, Governor-General and conduct of elections; expenses related to the collection of taxes, and management of public funds and public debt; and assistance to developing countries including assistance initiatives in the Pacific, contributions to international organisations and the operations of the foreign service. It also includes: expenses related to research in areas not otherwise connected with a specific function; expenses related to overall economic and statistical services and government superannuation benefits (excluding nominal interest expenses on unfunded liabilities which are included under the nominal superannuation interest sub-function in the other purposes function).

Expenses within the function tend to fluctuate over the budget and forward estimates partly due to factors such as the preparation for a federal election expected in 2007-08 and the Asia-Pacific Economic Cooperation conference in 2007 (legislative and executive affairs sub-function).

The increase in expenses in the financial and fiscal affairs sub-function over the budget and forward estimates relates largely to the growth in the Australian Taxation Office's penalty remission expenses based on the forecast of future remission activity, peaking in 2010-11. Expenses in this sub-function also increase due to increased investment expenses associated with the accumulation of financial assets in the Future Fund for the purposes of offsetting the unfunded superannuation liabilities of the Government.

The increase in expenses in the foreign affairs and economic aid sub-function over the budget and forward estimates is due primarily to the Government's commitment to raise the level of Official Development Assistance to about \$4 billion by 2010. Fluctuations in the foreign affairs and economic aid sub-function over the budget and forward years also reflect the timing of Australia's contributions to multilateral development banks.

*Statement 6: Expenses and net capital investment*

The increases in expenses in the general research sub-function over the budget and forward estimates is mainly the result of a number of new measures to increase the resourcing to: the Commonwealth Scientific and Industrial Research Organisation to expand the National Research Flagship initiative and build an Australian square kilometre array pathfinder radio-telescope; the Australian Nuclear Science and Technology Organisation to cover additional costs associated with the operation of the new open pool Australian light-water reactor (including depreciation costs and upgrades to its radioactive waste conditioning infrastructure); and the Australian Institute of Marine Science to expand its research in north-west Australia. For further details on these new measures please refer to Budget Paper No. 2, *Budget Measures 2007-08* under the Education, Science and Training portfolio.

## Defence

**Table 5: Summary of expenses**

	Estimates		Projections		
	2006-07	2007-08	2008-09	2009-10	2010-11
	\$m	\$m	\$m	\$m	\$m
Defence	17,358	19,880	21,133	22,054	23,018
<b>Total defence</b>	<b>17,358</b>	<b>19,880</b>	<b>21,133</b>	<b>22,054</b>	<b>23,018</b>

### Nature of expenses and major trends

Expenses in this function are all within the Defence portfolio. They support operations overseas and the delivery of navy, army, air and intelligence capabilities and strategic policy in the defence of Australia and its national interests.

Total annual expenses for the defence function are estimated to rise by \$3.1 billion over the period 2007-08 to 2010-11. In real terms, the growth in expenses for this function is 3.5 per cent a year, on average.

The growth and pattern of expenditure is affected by a number of factors. First, the significant funding increases for investment in capability announced by the Government in *Defence 2000 – Our Future Defence Force* (the Defence 2000 White Paper) continue to influence the trend. Secondly, significant funding is being provided for major Australian Defence Force (ADF) deployments, such as the operations in Iraq and Afghanistan and the ADF presence in East Timor. Most additional operational funding for these deployments falls in 2007-08.

The high rate of growth also reflects funding provided in this and previous budgets for logistics, Heavy Air Lift Capability, the Hardened and Networked Army – Phase 2, the purchase of 24 F/A-18F Super Hornets, military personnel costs and recruitment and retention initiatives. Capital expenditure reprogramming from earlier years to the forward estimates (largely associated with slippage in the schedules of some major projects) has also contributed to the estimated high rate of growth.

## Public order and safety

**Table 6: Summary of expenses**

	Estimates		Projections		
	2006-07	2007-08	2008-09	2009-10	2010-11
	\$m	\$m	\$m	\$m	\$m
Courts and legal services	833	920	938	944	923
Other public order and safety	2,481	2,750	2,803	2,836	2,839
<b>Total public order and safety</b>	<b>3,314</b>	<b>3,670</b>	<b>3,741</b>	<b>3,780</b>	<b>3,762</b>

### Nature of expenses and major trends

Expenses for the public order and safety function support the administration of the federal legal system and the provision of legal services, including legal aid, to the community. Public order and safety expenses also include law enforcement and intelligence activities, as well as the protection of Australian Government property.

Expenses for the courts and legal services sub-function are expected to increase from 2006-07 to 2007-08 primarily reflecting new measures, including *Strengthening national security – implementing the Anti-Terrorism Act (No. 2) 2005*. For further details on these new measures please refer to Budget Paper No. 2, *Budget Measures 2007-08* under the Attorney-General's portfolio. The increase from 2006-07 to 2007-08 also reflects the growth in funding for the refurbishment of the Sydney Law Courts. Expenses are then relatively constant in nominal terms to 2010-11.

Expenses for the other public order and safety sub-function are expected to steadily increase over the budget and forward estimates reflecting law enforcement and intelligence measures. Key areas of growth include anti-money laundering, the development and implementation of a maritime identification system, aviation security accommodation, and the continued growth in resources for the Australian Security Intelligence Organisation.

## Education

**Table 7: Summary of expenses**

	Estimates		Projections		
	2006-07	2007-08	2008-09	2009-10	2010-11
	\$m	\$m	\$m	\$m	\$m
Higher education	5,372	5,801	6,229	6,367	6,649
Vocational and other education	1,617	1,657	1,673	1,699	1,754
Non-government schools	5,772	6,256	6,591	7,025	7,523
Government schools	3,103	3,230	3,125	3,269	3,449
<i>Schools</i>	<i>8,874</i>	<i>9,486</i>	<i>9,716</i>	<i>10,294</i>	<i>10,973</i>
Student assistance	486	512	533	531	533
General administration	2	6	6	6	6
School education - specific funding	199	290	334	312	313
<b>Total education</b>	<b>16,549</b>	<b>17,752</b>	<b>18,491</b>	<b>19,209</b>	<b>20,228</b>

### Nature of expenses and major trends

Education expenses support the delivery of education services through higher education institutions; vocational education and training providers (including technical and further education institutions); and government (State and Territory) and non-government schools.

Total expenses under the education function are estimated to increase by 9.0 per cent in real terms from 2007-08 to 2010-11, or 3.4 per cent annually on average. The major drivers of this growth are the significant new measures for schools and universities announced in the 2007-08 Budget in the *Realising Our Potential* package, the effect of previously announced decisions and relatively high indexation rates for schools funding. For further details on these new measures, refer to Budget Paper No. 2, *Budget Measures 2007-08* under the Education, Science and Training portfolio.

Funding for higher education continues to grow over the forward years primarily reflecting the impact of the *Realising Our Potential* package of measures which increases funding for universities, past increases in expenditure under the Commonwealth Grants Scheme and the Higher Education Contribution Scheme, and past increases in expenditure under the *Our Universities – Backing Australia's Future* package. Higher education funding is estimated to rise by about 9.7 per cent in real terms from 2007-08 to 2010-11 or 3.7 per cent annually on average.

Growth in expenses over the forward estimates in the vocational and other education sub-function is mainly driven by the indexation of Commonwealth funding to maintain real base funding levels over time. Other significant expenses on vocational education and training are included in the vocational and industry training sub-function (other economic affairs function).

Total expenses under the government and non-government schools sub-functions are estimated to increase by 10.7 per cent in real terms from 2007-08 to 2010-11 or 3.7 per cent annually on average. The main drivers for the growth in these

sub-functions are new measures to increase funding for government and non-government schools announced in the 2007-08 Budget and indexation of Commonwealth funding to maintain real base funding levels over time calculated with reference to a special cost index, the Average Government School Recurrent Costs (AGSRC) index. Because the AGSRC index grows at a significantly faster rate than most other indexation parameters, it provides for significant real increases in funding over time. The funding for the Investing In Our Schools programme will be completed in 2008-09.

## Health

**Table 8: Summary of expenses**

	Estimates		Projections		
	2006-07	2007-08	2008-09	2009-10	2010-11
	\$m	\$m	\$m	\$m	\$m
Medical services and benefits(a)	17,215	18,361	19,404	20,342	21,374
Hospital services	1,549	1,592	1,625	1,655	1,678
Health care agreements	8,865	9,350	9,461	9,640	9,828
<i>Hospital services and health care agreements</i>	<i>10,414</i>	<i>10,942</i>	<i>11,087</i>	<i>11,295</i>	<i>11,507</i>
Pharmaceutical services and benefits	7,669	8,589	8,611	8,985	9,389
Aboriginal and Torres Strait Islander health	352	433	476	503	534
Health services	1,493	1,670	1,747	1,760	1,842
Other health services	2,304	2,056	2,200	2,311	2,358
<i>Other health services</i>	<i>3,797</i>	<i>3,726</i>	<i>3,947</i>	<i>4,071</i>	<i>4,200</i>
General administration	594	847	920	959	1,000
Health assistance to the aged(b)	61	67	75	85	117
<b>Total health</b>	<b>40,102</b>	<b>42,964</b>	<b>44,520</b>	<b>46,240</b>	<b>48,120</b>

(a) The financial impact of premium growth on the forward estimates for the Private Health Insurance Rebate has been allocated to the Contingency Reserve.

(b) There has been a reclassification of some expenditure administered by the Department of Families, Community Services and Indigenous Affairs that was previously reported under the health assistance to the aged sub-function (health) to the assistance to the aged sub-function (social security and welfare).

### Nature of expenses and major trends

The health function includes expenses relating to: medical services funded through Medicare and the Private Health Insurance Rebate (medical services and benefits sub-function); provision of in-hospital services to eligible veterans and their dependants (hospital services sub-function); funding under Australian Health Care Agreements between the Australian Government and the States and Territories (health care agreements sub-function); and the Pharmaceutical Benefits and Repatriation Pharmaceutical Benefits Schemes (pharmaceutical services and benefits sub-function).

The major purpose of health function expenditure is to ensure that all Australians have access to essential health services through a range of providers and without excessive price barriers.

While expenses related to health are likely to be a major contributor to the growth in Australian Government spending in the coming decades, total Australian Government health spending is expected to remain at around 4.0 per cent of GDP in each year over the budget and forward estimates years.

Total expenses for this function are estimated to increase by 7.2 per cent in real terms over the forward years, or on average by around 2.9 per cent annually in real terms.

Medical services and benefits funded through Medicare and the Private Health Insurance Rebate are the main contributors to health function expenses and are estimated to increase by 11.4 per cent in real terms over the forward years, or on



average by around 3.8 per cent annually in real terms, making up around 43 per cent of total health expenditure in 2007-08 and across the forward estimates.

Expenses in the hospital services sub-function, which is focussed on providing services to veterans, are projected to remain relatively stable, with the impact of an ageing and increasingly frail veteran community requiring more hospital services being offset by declining client numbers in the veteran community.

The trend in the estimated expenses for the health care agreements sub-function is driven by funding growth determined in the Australian Health Care Agreements for the period 1 July 2003 to 30 June 2008. Estimates for base funding in future years have been provided based on standard indexation parameters, pending the negotiation of the extension of the agreements.

Expenses in the general administration sub-function, which is mainly focused on providing health information and education services, are projected to increase in 2007-08 and over the forward years due to the implementation of a range of workforce and general practitioner training programmes, particularly the Council of Australian Governments initiatives.

The pharmaceutical services and benefits sub-function has been one of the fastest growing areas of Australian Government expenditure. However, the introduction of the *Pharmaceutical Benefits Scheme Reform* package at the *Mid-Year Economic and Fiscal Outlook 2006-07* has helped slow growth to 1.5 per cent annually in real terms over the forward estimates. Major components of the pharmaceutical services and benefits sub-function are outlined in further detail below in Box 6.1.

**Box 1: Pharmaceutical services and benefits**

**Table 8.1: Trends in major components of the pharmaceutical services and benefits sub-function**

	2006-07	2007-08	2008-09	2009-10	2010-11
	\$m	\$m	\$m	\$m	\$m
Pharmaceutical Benefits (Concessional) (a)	4,456	<b>4,849</b>	4,864	5,129	5,456
Pharmaceutical Benefits (General) (a)	1,097	<b>1,177</b>	1,170	1,226	1,297
Highly Specialised Drugs(a)	580	<b>638</b>	695	749	807
Repatriation Pharmaceutical Benefits Scheme(b)	449	<b>446</b>	417	398	382
Essential Vaccines(c)	283	<b>443</b>	253	215	164
Other(d)	583	<b>781</b>	955	1,008	1,037
Sub-total administered items	7,448	<b>8,334</b>	8,354	8,725	9,143
Departmental expenses(e)	221	<b>255</b>	257	260	246
<b>Total</b>	<b>7,669</b>	<b>8,589</b>	<b>8,611</b>	<b>8,985</b>	<b>9,389</b>

(a) For a detailed discussion of the Pharmaceutical Benefits Scheme, refer to Outcome 2 of Health and Ageing Portfolio Budget Statement 2007-08.

(b) Repatriation Pharmaceutical Benefits are covered under Outcome 2 of the Department of Veterans' Affairs (Defence Portfolio) Portfolio Budget Statement 2007-08.

(c) The sharp increase in estimated expenses for 2007-08 is associated with the national human papillomavirus vaccination campaign, which includes a two-year catch up programme commencing from July 2007.

(d) The increase in estimated expenses in 2007-08 and 2008-09 and across the forward years is due to amendments to the 4th Community Pharmacy Agreement providing incentive payments to pharmacists under the *Pharmaceutical Benefits Scheme Reform* package, the delivery of the national human papillomavirus vaccination campaign and the steady growth in hospital dispensed drugs.

(e) Approximately 23 per cent of Medicare Australia departmental expenses and 20 per cent of Health and Ageing departmental expenses are allocated to this sub-function.

## Social security and welfare

**Table 9: Summary of expenses**

	Estimates		Projections		
	2006-07	2007-08	2008-09	2009-10	2010-11
	\$m	\$m	\$m	\$m	\$m
Assistance to the aged(a)	32,722	34,517	36,850	38,991	41,199
Assistance to veterans and dependants	6,172	6,070	6,147	6,100	6,021
Assistance to people with disabilities	12,730	13,113	13,627	14,126	14,870
Assistance to families with children	28,522	29,713	30,528	31,100	31,749
Assistance to the unemployed	4,773	5,397	5,925	6,701	6,927
Assistance to the sick	84	87	89	90	92
<i>Assistance to the unemployed and sick</i>	<i>4,857</i>	<i>5,484</i>	<i>6,014</i>	<i>6,791</i>	<i>7,019</i>
Common youth allowance	2,128	2,192	2,210	2,236	2,254
Other welfare programmes	2,446	1,622	1,654	1,697	1,797
Aboriginal advancement nec	1,244	1,261	1,399	1,409	1,590
General administration	2,393	2,478	2,303	2,302	2,437
<b>Total social security and welfare</b>	<b>93,215</b>	<b>96,450</b>	<b>100,733</b>	<b>104,751</b>	<b>108,936</b>

(a) There has been a reclassification of some expenditure administered by the Department of Families, Community Services and Indigenous Affairs that was previously reported under the health assistance to the aged sub-function (health) to the assistance to the aged sub-function (social security and welfare).

### Nature of expenses and major trends

The social security and welfare function includes: pensions and services to the aged, services to the unemployed, assistance to people with disabilities, a variety of assistance to families with children, income support and compensation for veterans and their dependants; and advancement programmes for Aboriginal and Torres Strait Islander people.

Social security and welfare function expenses are estimated to total around \$96.4 billion in 2007-08 and grow significantly over the forward estimates. The sub-functions contributing most to the growth over the forward estimates are assistance to the aged, which is expected to grow at an average annual rate of 4.1 per cent in real terms, assistance to families with children and assistance to people with disabilities. The main driver of growth in the expenses of these sub-functions is the indexation of payments, including maintaining the single rate of age and disability pensions at a minimum of 25 per cent of Male Total Average Weekly Earnings, and in respect of assistance to the aged, changes relating to the aged pension asset taper rate, which will come into effect in September 2007. The growth also reflects demographic and social factors such as the ageing of the population.

Expenses in the assistance to people with disabilities sub-function are expected to grow at an average annual rate of 2.2 per cent, in real terms, over the forward estimates. The Disability Support Pension is a significant contributor to expenses in this sub-function, and together with the carer allowance and carer payment programmes, is a significant driver of increases across the forward estimates.

Expenditure under the assistance to families with children sub-function is expected to grow steadily over the forward estimates. Programmes making the most significant

*Statement 6: Expenses and net capital investment*

contribution to this sub-function include Parenting Payments, the Child Care Benefit and the Maternity Allowance with the Family Tax Benefit also driving increases across the forward estimates.

The main driver of the assistance to the unemployed sub-function is the Newstart Allowance programme. Expected increases over the forward estimates are primarily the result of changes to eligibility criteria for the Newstart Allowance and other payment types such as the Parenting Payment, as part of the Australian Government's *Welfare to Work* changes, announced in the 2005-06 Budget.

The decrease in the other welfare sub-function expenses from 2006-07 to 2007-08 is mainly attributable to a one-off additional superannuation co-contribution for those persons who made eligible contributions in the 2005-06 income year. The increase across the forward estimates is related to labour growth and the effect of growth in average weekly earnings.

## Housing and community amenities

**Table 10: Summary of expenses**

	Estimates		Projections		
	2006-07	2007-08	2008-09	2009-10	2010-11
	\$m	\$m	\$m	\$m	\$m
Housing	1,731	1,817	1,871	1,961	1,879
Urban and regional development	181	222	168	151	135
Environment protection	1,160	972	923	807	446
<b>Total housing and community amenities</b>	<b>3,072</b>	<b>3,011</b>	<b>2,962</b>	<b>2,919</b>	<b>2,460</b>

### Nature of expenses and major trends

The housing and community amenities function includes the Australian Government's contribution to the *Commonwealth-State Housing Agreement*, expenses of Defence Housing Australia (DHA) and various regional development and environment protection programmes.

Housing sub-function expenses are estimated to grow over the forward estimates mainly due to the Department of Defence's increasing demand for housing provided by DHA. This is primarily in support of the personnel to be assigned to the Headquarters Joint Operation Command to be located in Bungendore, New South Wales by 2008-09, and in response to changes to the geographical location of the Australian Defence Force personnel. Additionally, DHA expenditure is forecast to grow due to the replacement of expiring leases and the on-going upgrade and maintenance of DHA housing.

Significant contributors to the urban and regional development sub-function are the Regional Partnerships and Bushfire and Natural Disaster Mitigation programmes. The increase in 2007-08 is attributable to an increase in National Disaster Mitigation funding, partly as a result of the Australian Government's contribution to the upgrade of the Launceston levee system. There has also been a movement of funds from 2006-07 for a number of programmes in this sub-function due to the slower than anticipated development and progress of projects. The Sustainable Regions programme is a pilot programme that terminates in 2008-09 and the Natural Disaster Mitigation programme terminates at the end of 2007-08, resulting in a drop in funding after those years.

Expenses under the environment protection sub-function decrease after 2006-07 due mainly to decreasing expenditure in the programmes under the National Water Commission. Water Smart Australia, the largest programme, decreases steadily before ending in 2010. Expenses for the Raising National Water Standards programme peak in 2008-09 but then decrease until completion in 2010. Other significant expenses on water and infrastructure are allocated to the natural resources development sub-function of the agriculture forestry and fishing function.

## Recreation and culture

**Table 11: Summary of expenses**

	Estimates		Projections		
	2006-07	2007-08	2008-09	2009-10	2010-11
	\$m	\$m	\$m	\$m	\$m
Broadcasting	1,310	1,423	1,427	1,405	1,419
Arts and cultural heritage	873	980	936	965	979
Sport and recreation	267	322	296	259	225
National estate and parks	223	254	274	254	310
<b>Total recreation and culture</b>	<b>2,673</b>	<b>2,979</b>	<b>2,932</b>	<b>2,884</b>	<b>2,933</b>

### Nature of expenses and major trends

Recreation and culture function expenses support public broadcasting; the regulatory framework for Australia's broadcasting sector; cultural institutions; funding for the arts and the film industry; assistance to sport and recreation activities; and the management and protection of national parks and other world heritage areas. This function also includes expenses relating to the protection and preservation of historic sites and buildings, including war graves.

Expenses in the broadcasting sub-function are expected to increase over the forward estimates reflecting additional funding for digital services provided to the Australian Broadcasting Corporation and the Special Broadcasting Service from the triennium commencing in 2007-08, which is offset by the completion of the Protecting Australian Families Online programme in 2008-09.

Arts and cultural heritage sub-function expenses are expected to increase over the forward estimates. This is due to the introduction of a new producer tax rebate scheme for the Australian screen media industry. The decrease in expenditure in 2008-09 is largely due to the impact of higher expenses in 2007-08 reflecting one-off expenditures and timing effects in heritage and war graves programmes.

Expenses in the sport and recreation sub-function show a decreasing trend over the forward estimates beginning in 2007-08. This is due to a combination of short-term funding injections provided to develop major sporting infrastructure, including at Adelaide Oval and the Sydney Cricket Ground, and the completion of the Active After-school Communities programme at the end of the 2010 school year.

The national estate and parks sub-function shows an increase in expenses due to spending by the Department of the Environment and Water Resources including for the Australian Antarctic Division, Great Barrier Reef Marine Park Authority and under the Sustainable Future for Tasmania initiative.

## Fuel and energy

**Table 12: Summary of expenses**

	Estimates		Projections		
	2006-07	2007-08	2008-09	2009-10	2010-11
	\$m	\$m	\$m	\$m	\$m
Fuel and energy	4,711	5,360	5,495	5,636	5,873
<b>Total fuel and energy</b>	<b>4,711</b>	<b>5,360</b>	<b>5,495</b>	<b>5,636</b>	<b>5,873</b>

### Nature of expenses and major trends

This function includes expenses for Fuel Tax Credits and the Energy Grants (Cleaner Fuels) Scheme, which are administered by the Australian Taxation Office. This function also includes expenses of the Department of the Environment and Water Resources for *Climate Change Strategy* measures, *Securing Australia's Energy Future* measures and other recent decisions. These expenses increase in 2007-08 due to higher funding levels for several greenhouse related programmes, including the Low Emissions Technology Demonstration Fund and the Photovoltaic Rebate programme.

Included within this function are expenses for programmes relating to the production or use of alternative fuels including ethanol and biodiesel, which are administered by the Department of Industry, Tourism and Resources and the Australian Taxation Office.

This function also includes expenses related to the introduction of the Liquefied Petroleum Gas vehicle purchase and conversion rebate scheme, and a reintroduction of company tax compensation payments to New South Wales and Victoria following the decision not to sell the Snowy Hydro Ltd.

Following the implementation of legislation to provide Fuel Tax Credits on 1 July 2006 (which effectively replaced the Energy Grants (Credits) Scheme), expenses in this function reflect significant growth from 2006-07 due to the phased implementation of the Fuel Tax Credits measure over a six year period. From 1 July 2008 eligibility for entitlements expands to include a 50 per cent credit for 'off-road' business use of excisable fuels in newly eligible activities.

## Agriculture, forestry and fishing

**Table 13: Summary of expenses**

	Estimates		Projections		
	2006-07	2007-08	2008-09	2009-10	2010-11
	\$m	\$m	\$m	\$m	\$m
Wool industry	67	52	54	55	55
Grains industry	116	109	113	126	134
Dairy industry	103	85	79	91	49
Cattle, sheep and pig industry	156	156	157	146	146
Fishing, horticulture and other agriculture	545	360	234	230	231
General assistance not allocated to specific industries	119	93	85	62	86
Rural assistance	760	810	177	76	74
Natural resources development	394	567	629	1,286	1,677
General administration	613	568	559	541	538
<b>Total agriculture, forestry and fishing</b>	<b>2,873</b>	<b>2,799</b>	<b>2,085</b>	<b>2,612</b>	<b>2,990</b>

### Nature of expenses and major trends

Agriculture, forestry and fishing function expenses support assistance to primary producers, forestry, fishing, land and water resources management, quarantine services and contributions to research and development.

Expenses within this function are expected to increase by 2.2 per cent in real terms between 2007-08 and 2010-11, reflecting the increase in expenditure as a result of the recently announced National Plan for Water Security (NPWS) (natural resources development sub-function). The NPWS is focused on modernising irrigation infrastructure and addressing over-allocation in the Murray-Darling Basin. It is conditional on governance arrangements for the Murray-Darling Basin being placed on a national footing. For further details on this new measure, refer to Budget Paper No. 2, *Budget Measures 2007-08* under the Environment and Water Resources portfolio.

The extent of the overall increase is partially offset by the expected decrease in expenditure on drought-related measures over the forward estimates period within the rural assistance sub-function. This reflects an assumed return to normal seasonal conditions in Australia and a consequent cessation of drought assistance outlays. There is also a decrease in expenses under the fishing, horticulture and other agriculture sub-function after 2007-08 which is attributable to the conclusion of the *Tasmanian Community Forest Agreement* package and the *Securing our Fishing Future* package.

Other significant expenses on conservation and the sustainable use and repair of Australia's natural environment are included in the environment protection sub-function (housing and community amenities function) and the national estate and parks sub-function (recreation and culture function).



## Mining, manufacturing and construction

**Table 14: Summary of expenses**

	Estimates		Projections		
	2006-07	2007-08	2008-09	2009-10	2010-11
	\$m	\$m	\$m	\$m	\$m
Mining, manufacturing and construction	1,884	2,029	2,018	1,949	1,843
<b>Total mining, manufacturing and construction</b>	<b>1,884</b>	<b>2,029</b>	<b>2,018</b>	<b>1,949</b>	<b>1,843</b>

### Nature of expenses and major trends

Expenses under this function relate to the manufacturing and export sectors, and are designed to improve the efficiency and competitiveness of Australian industries. Major expenses include programmes specific to the automotive, textiles, clothing and footwear (TCF) and pharmaceutical industries. These expenses also include Australian Government assistance to exporters through direct financial assistance for the development of export markets, information and promotional assistance, finance and insurance services, trade policy, programmes providing research and development assistance grants, and strategic investment incentives. Other assistance under this function relates to measures announced in the Australian Government's 2007 industry statement entitled '*Global Integration*'.

The increase in expenses for 2007-08 relates largely to one-off final payments for a number of projects under the Strategic Investment Coordination Investment process, and increases in payments under the Pharmaceuticals Partnerships programme and the Commercial Ready programme.

From 2008-09 to 2010-11, expenses are expected to decrease due to a downward trend in expenses for the Automotive Competitiveness and Investment Scheme, the cessation of the Pharmaceuticals Partnerships programme in 2008-09 and expenses for the Commercial Ready programme returning to their normal levels.

## Transport and communication

**Table 15: Summary of expenses**

	Estimates		Projections		
	2006-07	2007-08	2008-09	2009-10	2010-11
	\$m	\$m	\$m	\$m	\$m
Communication	671	815	656	375	349
Rail transport(a)	32	169	170	0	0
Air transport	149	169	156	155	151
Road transport(a)	2,151	2,875	3,409	3,863	3,667
Sea transport	236	308	249	252	257
Other transport and communication	161	179	183	174	160
<b>Total transport and communication</b>	<b>3,400</b>	<b>4,516</b>	<b>4,823</b>	<b>4,818</b>	<b>4,584</b>

(a) All AusLink 2 funding (2009-10 onwards) is currently classified under the road transport sub-function and will be reclassified between the road and rail sub-functions as projects identified under the corridor strategies are selected.

### Nature of expenses and major trends

Transport and communication function expenses support the infrastructure and regulatory framework for Australia's transport and communications sectors.

The increase in expenses in the communication sub-function between 2006-07 and 2007-08 is primarily due to an injection of funds into the Australian Broadband Guarantee programme, which commenced in 2006-07 and concludes in 2007-08. The overall decline in expenses in 2009-10 and 2010-11 reflects the conclusion of telecommunications and information technology initiatives, including the *Connect Australia* package.

The increase in expenses in the rail transport sub-function from 2006-07 to 2008-09 is due to rail expenses associated with the first five-year AusLink programme. These include the construction and upgrade of passing loops, communications systems and bridge over-passes on the inter-state rail networks, including the North-South rail line between Melbourne and Brisbane.

The increased level of expense in the air transport sub-function in 2007-08 is mainly due to aviation security initiatives including assistance for the extension of checked baggage screening to twenty-six regional airports and the introduction of screening for liquids, aerosols and gels carried onboard aircraft flying international routes.

The high level of expenses in the road transport sub-function from 2006-07 to 2010-11 is due to the AusLink programme. This includes funding announced as part of the Government's \$19.1 billion second five-year AusLink programme which includes an injection of \$17.2 billion for projects on the AusLink National Network and the extension of the Black Spot, Roads to Recovery and Strategic Regional programmes. Further information can be found in the AusLink 2 measures, *Building for the future – second five-year AusLink programme*, detailed under the Transport and Regional Services portfolio in Budget Paper No. 2, *Budget Measures 2007-08*. The Government is also providing additional funding of \$695 million under the AusLink 1 programme,

including \$250 million to the AusLink Strategic Regional programme. Major components of the road transport sub-function are outlined in further detail in Box 2 below.

The increase in expenses in the sea transport sub-function in 2007-08 is a result of the merger of the Australian Maritime College (AMC) and the University of Tasmania. The Government will gift the AMC's assets (valued at \$61.4 million) to the University to facilitate integration of the AMC into the University from 1 January 2008.

### Box 2: Components of road transport funding

**Table 15.1: Trends in major components of the road transport sub-function**

	2006-07	<b>2007-08</b>	2008-09	2009-10	2010-11
	\$m	<b>\$m</b>	\$m	\$m	\$m
AusLink National Network	1,703	<b>2,194</b>	2,634	3,246	3,166
Strategic Regional Programme	40	<b>101</b>	190	145	25
Roads to Recovery Programme	308	<b>461</b>	461	350	350
Black Spot Programme	45	<b>45</b>	45	60	60
Other	55	<b>74</b>	79	62	66
<b>Total(a)</b>	<b>2,151</b>	<b>2,875</b>	<b>3,409</b>	<b>3,863</b>	<b>3,667</b>

(a) See Outcome 1 of the Transport and Regional Services Portfolio Budget Statements 2007-08.

## Other economic affairs

**Table 16: Summary of expenses**

	Estimates		Projections		
	2006-07	2007-08	2008-09	2009-10	2010-11
	\$m	\$m	\$m	\$m	\$m
Tourism and area promotion	193	197	197	196	198
Vocational and industry training	698	906	965	975	1,021
Labour market assistance to job seekers and industry	1,889	1,956	1,987	2,035	2,083
Industrial relations	465	382	350	364	370
Immigration	1,088	1,106	1,062	1,089	1,113
<i>Total labour and employment affairs</i>	<i>4,139</i>	<i>4,350</i>	<i>4,364</i>	<i>4,463</i>	<i>4,586</i>
Other economic affairs nec	990	1,069	1,073	1,059	1,110
<b>Total other economic affairs</b>	<b>5,322</b>	<b>5,617</b>	<b>5,634</b>	<b>5,719</b>	<b>5,895</b>

### Nature of expenses and major trends

The other economic affairs function includes expenses on tourism and area promotion, labour market assistance, immigration, industrial relations and other economic affairs not elsewhere classified.

Total expenses for the other economic affairs function are estimated to grow moderately over the period 2006-07 to 2010-11, reflecting continued government funding in most areas.

The growth in expenses in the vocational and industry training sub-function from 2006-07 to 2007-08 and over the forward years is mainly due to the Skills for the Future initiative announced by the Prime Minister on 12 October 2006 and new measures announced in the 2007-08 Budget.

The decrease in expenses for the industrial relations sub-function from 2006-07 to 2007-08 reflects the impact of the initial implementation costs of the *Work Choices* reform package incurred in 2006-07.

## Other purposes

**Table 17: Summary of expenses**

	Estimates		Projections		
	2006-07	2007-08	2008-09	2009-10	2010-11
	\$m	\$m	\$m	\$m	\$m
Interest on Australian Government's behalf	3,596	3,485	3,370	3,353	3,219
Interest on behalf of states and territories	0	0	0	0	0
Interest received on Australian Government stock	0	0	0	0	0
<i>Public debt interest</i>	<i>3,596</i>	<i>3,485</i>	<i>3,370</i>	<i>3,353</i>	<i>3,219</i>
Nominal superannuation interest	5,730	6,192	6,294	6,517	6,706
General revenue assistance - states and territories	0	0	0	0	0
General capital assistance - states and territories	0	0	0	0	0
Debt assistance	0	0	0	0	0
Local government assistance	1,703	1,765	1,834	1,904	1,977
Revenue assistance to the states and territories	169	173	178	182	187
Assistance to other governments	725	687	728	756	728
<i>General purpose inter-government   transactions</i>	<i>2,597</i>	<i>2,625</i>	<i>2,739</i>	<i>2,842</i>	<i>2,892</i>
Natural disaster relief	113	103	103	103	103
Contingency reserve(a)	578	389	3,979	7,360	11,073
<b>Total other purposes</b>	<b>12,613</b>	<b>12,794</b>	<b>16,486</b>	<b>20,176</b>	<b>23,993</b>

(a) Asset sale related expenses are treated as a component of the contingency reserve.

### Nature of expenses and major trends

The other purposes function includes expenses incurred in the servicing of public debt interest, and assistance to the State, Territory and local governments. The function also includes items classified to natural disaster relief, the contingency reserve, costs of asset sales, and expenses related to nominal interest expenses on unfunded liabilities for government superannuation benefits.

The assistance to other governments sub-function includes payments to Western Australia for offshore petroleum royalties. Expenses in this sub-function are expected to fluctuate across the forward years due to the combination of a decrease in estimated production volumes and estimated increases in the prices on which the royalty payments are based.

In reference to expenses in the local government assistance sub-function, the steady increase across the budget and forward estimates is wholly driven by forecast increases in population and the Consumer Price Index. A significant component of local government assistance is categorised under other expense functions (refer to Budget Paper No. 3, *Federal Financial Relations 2007-08* for more information on Australian Government assistance for local governments).

The natural disaster relief sub-function includes business assistance grants for the victims of Tropical Cyclone Larry, which are expected to conclude in 2006-07.

*Statement 6: Expenses and net capital investment*

Nominal superannuation interest grows over time reflecting the growth in the Government's superannuation liability.

Asset sale related expenses decline after 2006-07 in the contingency reserve sub-function reflecting the Telstra asset sales expense in 2006-07. The increase in expenses in the contingency reserve from 2007-08 over the forward years is largely due to the conservative bias allowance – an allowance that compensates for the trend in expenses on existing Australian Government programmes to be underestimated by agencies in the forward years. The nature of the contingency reserve is discussed in more detail at Appendix B.

## GENERAL GOVERNMENT NET CAPITAL INVESTMENT

Net capital investment comprises acquisitions of non financial assets (including inventories) less non financial asset disposals and depreciation.

Australian Government general government net capital investment is expected to decline in 2007-08 following a significant peak in 2006-07. Estimates of net capital investment, net of non-financial asset sales and depreciation, remain significantly positive over the forward estimates period to 2010-11 (Table 18).

**Table 18: Estimates of total net capital investment**

	2006-07		2007-08	2008-09	2009-10	2010-11
	MYEFO(a)	Revised	Estimate	Projections		
<b>Total net capital investment (\$m)</b>	<b>2,290</b>	<b>2,025</b>	<b>1,171</b>	<b>1,377</b>	<b>861</b>	<b>939</b>
Real growth on previous year(%) <sup>(b)</sup>	-	-	-43.6	16.3	-38.2	6.8
Per cent of GDP	0.2	0.2	0.1	0.1	0.1	0.1

(a) As published in the *Mid-Year Economic and Fiscal Outlook 2006-07*.

(b) Real growth is calculated using the non-farm GDP deflator.

## Reconciliation of net capital investment since the 2006-07 Budget

A reconciliation of the 2006-07 Budget, 2006-07 MYEFO and 2007-08 Budget net capital investment estimates, showing the effect of policy decisions and economic parameter and other variations since the estimates were published in the 2006-07 Budget, is provided in Table 19.

**Table 19: Reconciliation of net capital investment**

	Estimates		Projections	
	2006-07	2007-08	2008-09	2009-10
	\$m	\$m	\$m	\$m
<b>2006-07 Budget net capital investment</b>	<b>1,642</b>	<b>174</b>	<b>602</b>	<b>38</b>
<b>Changes between 2006-07 Budget and MYEFO</b>				
Effect of policy decisions	159	134	106	307
Effect of parameter and other variations	489	169	507	641
<b>Total variations</b>	<b>648</b>	<b>304</b>	<b>612</b>	<b>948</b>
<b>2006-07 MYEFO net capital investment</b>	<b>2,290</b>	<b>478</b>	<b>1,215</b>	<b>986</b>
<b>Changes between MYEFO and 2007-08 Budget</b>				
Effect of policy decisions	26	352	250	80
Effect of parameter and other variations	-291	341	-87	-205
<b>Total variations</b>	<b>-265</b>	<b>693</b>	<b>163</b>	<b>-125</b>
<b>2007-08 Budget net capital investment</b>	<b>2,025</b>	<b>1,171</b>	<b>1,377</b>	<b>861</b>

In 2007-08, forecast net capital investment has increased by \$693 million since the 2006-07 MYEFO. This increase is due to the combined effect of new policy decisions of \$352 million and parameter and other variations of \$341 million.

Statement 6: Expenses and net capital investment

Discussion of changes between the 2006-07 MYEFO and the 2007-08 Budget, shown in the table above, can be found in Statement 2 (in the section titled 'Variations in net capital investment estimates'). Further information on capital measures since MYEFO can be found in Budget Paper No. 2, *Budget Measures 2007-08*.

### Net capital investment estimates by function

Estimates for Australian Government general government net capital investment by function for the period 2006-07 to 2010-11 are provided in Table 20.

**Table 20: Estimates of net capital investment by function**

	Estimates		Projections		
	2006-07	2007-08	2008-09	2009-10	2010-11
	\$m	\$m	\$m	\$m	\$m
General public services	519	173	88	57	-33
Defence	490	296	1,017	800	734
Public order and safety	80	173	83	-130	26
Education	4	8	2	3	0
Health	110	114	2	-11	-9
Social security and welfare	333	287	49	74	-64
Housing and community amenities	41	-112	-39	-24	52
Recreation and culture	87	143	104	33	-32
Fuel and energy	2	4	1	-1	-5
Agriculture, forestry and fishing	15	34	-4	-6	-3
Mining, manufacturing and construction	32	24	4	-2	2
Transport and communications	1	15	10	-12	-10
Other economic affairs	240	63	3	-35	-68
Other purposes	69	-52	58	115	350
<b>Total net capital investment</b>	<b>2,025</b>	<b>1,171</b>	<b>1,377</b>	<b>861</b>	<b>939</b>

Net capital investment of \$2.0 billion is expected in 2006-07, largely reflecting several major projects, including – the construction of the National Portrait Gallery, the Christmas Island Immigration Reception and Processing Centre and various other construction projects managed by the Department of Finance and Administration; the continuing refurbishment and relocation of various overseas missions by the Department of Foreign Affairs and Trade; investment in information technology by several agencies including the Australian Taxation Office, Centrelink and the Department of Immigration and Citizenship; and various Defence capital projects.

Net capital investment is expected to decline in 2007-08 following a significant peak in 2006-07 as a result of the progressive conclusion of various construction projects including the Christmas Island Immigration Reception and Processing Centre. It also reflects the finalisation of a significant overseas land purchase and other procurements associated with the upgrade to the security of a number of overseas posts managed by the Department of Foreign Affairs and Trade.

Significant factors contributing to net capital investment by function include:



- **General Public Services** – the investment by the Department of Finance and Administration in its property portfolio, including construction of the National Portrait Gallery and the new accommodation for the Australian Security Intelligence Organisation and the Office of National Assessments, and the refurbishment of the Royal Australian Mint building;
- **Defence** – the investment by the Department of Defence on various capital projects including the construction of the new Headquarters Joint Operations Command facility near Bungendore, New South Wales, and base infrastructure upgrades in Holsworthy, New South Wales, the Royal Australian Air Force bases in Amberley, Queensland, East Sale, Victoria, Wagga Wagga, New South Wales, and the Royal Australian Navy base in Cairns, Queensland;
- **Public order and safety** – investment by the Australian Security Intelligence Organisation in information technology and expansion of infrastructure to support growth in staff and operations and increasing technical and surveillance capability for national security-related purposes, as well as improvements in office accommodation. Also, investment by the Australian Federal Police in information technology and fit out of purpose-built office, operational and training facilities to accommodate all elements of the Unified Policing Model at airports. The capital investment associated with the Unified Policing Model forms part of the Government's response to the Wheeler Report into airport security and policing arrangements;
- **Health** – continuing investment in the National Medical Stockpile in 2006-07 and 2007-08 to protect against possible disease outbreaks such as pandemic influenza or biosecurity incidents;
- **Social security and welfare** – the investment in general information technology infrastructure in Centrelink and information technology related investment for the health and social services access card in Centrelink and the Department of Human Services;
- **Housing and community amenities** – adjustments to Defence Housing Australia's (DHA) property portfolio including, increased inventory holdings due to fewer property sales, variations to the forecast sale and leaseback programme and changes to DHA's capital programme for construction and replacement of Australian Defence Force housing;
- **Recreation and culture** – investment by the Australian Broadcasting Corporation for replacing and upgrading its technical asset base, the refurbishment of the National Gallery of Australia and the National Library of Australia buildings, and capital acquisitions to fit out the National Archives of Australia new storage facility; and

*Statement 6: Expenses and net capital investment*

- **Other economic affairs** – the continuing development of information technology systems to ensure well trained and supported staff for the Department of Immigration and Citizenship and the continuing upgrade and replacement of various meteorological radar in the Bureau of Meteorology’s radar network, as well as the upgrade of computer infrastructure, satellite receiving stations for imagery and data, and a radar rainfall network (as part of the *National Plan for Water Security* measure).

## APPENDIX A: EXPENSE BY FUNCTION AND SUB-FUNCTION

**Table A1: Estimates of expenses by function and sub-function**

	Actuals		Estimates		Projections	
	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
	\$m	\$m	\$m	\$m	\$m	\$m
<b>General public services</b>						
Legislative and executive affairs	768	881	1,039	854	875	1,031
Financial and fiscal affairs	3,958	4,991	5,244	5,527	5,621	5,872
Foreign affairs and economic aid	2,955	3,183	3,693	4,275	4,528	5,197
General research	2,346	2,457	2,599	2,593	2,647	2,595
General services	560	655	706	649	642	669
Government superannuation benefits	2,203	2,371	2,487	2,536	2,593	2,672
<b>Total general public services</b>	<b>12,790</b>	<b>14,539</b>	<b>15,768</b>	<b>16,434</b>	<b>16,905</b>	<b>18,035</b>
<b>Defence</b>	<b>16,194</b>	<b>17,358</b>	<b>19,880</b>	<b>21,133</b>	<b>22,054</b>	<b>23,018</b>
<b>Public order and safety</b>						
Courts and legal services	612	833	920	938	944	923
Other public order and safety	1,945	2,481	2,750	2,803	2,836	2,839
<b>Total public order and safety</b>	<b>2,558</b>	<b>3,314</b>	<b>3,670</b>	<b>3,741</b>	<b>3,780</b>	<b>3,762</b>
<b>Education</b>						
Higher education	5,362	5,372	5,801	6,229	6,367	6,649
Vocational and other education	1,617	1,617	1,657	1,673	1,699	1,754
Non-government schools	5,414	5,772	6,256	6,591	7,025	7,523
Government schools	2,910	3,103	3,230	3,125	3,269	3,449
<i>Schools</i>	<i>8,324</i>	<i>8,874</i>	<i>9,486</i>	<i>9,716</i>	<i>10,294</i>	<i>10,973</i>
Student assistance	467	486	512	533	531	533
General administration	0	2	6	6	6	6
School education - specific funding	112	199	290	334	312	313
<b>Total education</b>	<b>15,883</b>	<b>16,549</b>	<b>17,752</b>	<b>18,491</b>	<b>19,209</b>	<b>20,228</b>
<b>Health</b>						
Medical services and benefits	16,398	17,215	18,361	19,404	20,342	21,374
Hospital services	1,540	1,549	1,592	1,625	1,655	1,678
Health care agreements	8,369	8,865	9,350	9,461	9,640	9,828
<i>Hospital services and health care agreements</i>	<i>9,909</i>	<i>10,414</i>	<i>10,942</i>	<i>11,087</i>	<i>11,295</i>	<i>11,507</i>
Pharmaceutical services and benefits	7,130	7,669	8,589	8,611	8,985	9,389
Aboriginal and Torres Strait Islander health	323	352	433	476	503	534
Health services	1,436	1,493	1,670	1,747	1,760	1,842
Other health services	1,526	2,304	2,056	2,200	2,311	2,358
<i>Other health services</i>	<i>2,962</i>	<i>3,797</i>	<i>3,726</i>	<i>3,947</i>	<i>4,071</i>	<i>4,200</i>
General administration	599	594	847	920	959	1,000
Health assistance to the aged(a)	227	61	67	75	85	117
<b>Total health</b>	<b>37,549</b>	<b>40,102</b>	<b>42,964</b>	<b>44,520</b>	<b>46,240</b>	<b>48,120</b>
<b>Social security and welfare</b>						
Assistance to the aged(a)	29,839	32,722	34,517	36,850	38,991	41,199
Assistance to veterans and dependants	5,588	6,172	6,070	6,147	6,100	6,021
Assistance to people with disabilities	12,316	12,730	13,113	13,627	14,126	14,870
Assistance to families with children	26,219	28,522	29,713	30,528	31,100	31,749

**Table A1: Estimates of expenses by function and sub-function (continued)**

	Actuals		Estimates		Projections	
	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
	\$m	\$m	\$m	\$m	\$m	\$m
<b>Social security and welfare</b>						
<b>(continued)</b>						
Assistance to the unemployed	4,844	4,773	5,397	5,925	6,701	6,927
Assistance to the sick	85	84	87	89	90	92
<i>Assistance to the unemployed and the sick</i>	<i>4,929</i>	<i>4,857</i>	<i>5,484</i>	<i>6,014</i>	<i>6,791</i>	<i>7,019</i>
Common youth allowance	2,102	2,128	2,192	2,210	2,236	2,254
Other welfare programmes	1,629	2,446	1,622	1,654	1,697	1,797
Aboriginal advancement nec	1,403	1,244	1,261	1,399	1,409	1,590
General administration	2,193	2,393	2,478	2,303	2,302	2,437
<b>Total social security and welfare</b>	<b>86,219</b>	<b>93,215</b>	<b>96,450</b>	<b>100,733</b>	<b>104,751</b>	<b>108,936</b>
<b>Housing and community amenities</b>						
Housing	1,634	1,731	1,817	1,871	1,961	1,879
Urban and regional development	175	181	222	168	151	135
Environment protection	439	1,160	972	923	807	446
<b>Total housing and community amenities</b>	<b>2,248</b>	<b>3,072</b>	<b>3,011</b>	<b>2,962</b>	<b>2,919</b>	<b>2,460</b>
<b>Recreation and culture</b>						
Broadcasting	1,245	1,310	1,423	1,427	1,405	1,419
Arts and cultural heritage	812	873	980	936	965	979
Sport and recreation	314	267	322	296	259	225
National estate and parks	213	223	254	274	254	310
<b>Total recreation and culture</b>	<b>2,585</b>	<b>2,673</b>	<b>2,979</b>	<b>2,932</b>	<b>2,884</b>	<b>2,933</b>
<b>Fuel and energy</b>	<b>4,046</b>	<b>4,711</b>	<b>5,360</b>	<b>5,495</b>	<b>5,636</b>	<b>5,873</b>
<b>Agriculture, forestry and fishing</b>						
Wool industry	49	67	52	54	55	55
Grains industry	130	116	109	113	126	134
Dairy industry	105	103	85	79	91	49
Cattle, sheep and pig industry	145	156	156	157	146	146
Fishing, horticulture and other agriculture	300	545	360	234	230	231
General assistance not allocated to specific industries	399	119	93	85	62	86
Rural assistance	570	760	810	177	76	74
Natural resources development	886	394	567	629	1,286	1,677
General administration	194	613	568	559	541	538
<b>Total agriculture, forestry and fishing</b>	<b>2,780</b>	<b>2,873</b>	<b>2,799</b>	<b>2,085</b>	<b>2,612</b>	<b>2,990</b>
<b>Mining, manufacturing &amp; construction</b>	<b>1,905</b>	<b>1,884</b>	<b>2,029</b>	<b>2,018</b>	<b>1,949</b>	<b>1,843</b>
<b>Transport and communication</b>						
Communication	636	671	815	656	375	349
Rail transport	305	32	169	170	0	0
Air transport	155	149	169	156	155	151
Road transport	1,616	2,151	2,875	3,409	3,863	3,667
Sea transport	198	236	308	249	252	257
Other transport and communication	165	161	179	183	174	160
<b>Total Transport and Communication</b>	<b>3,075</b>	<b>3,400</b>	<b>4,516</b>	<b>4,823</b>	<b>4,818</b>	<b>4,584</b>

**Table A1: Estimates of expenses by function and sub-function (continued)**

	Actuals		Estimates		Projections	
	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
	\$m	\$m	\$m	\$m	\$m	\$m
<b>Other economic affairs</b>						
Tourism and area promotion	209	193	197	197	196	198
Vocational and industry training	648	698	906	965	975	1,021
Labour market assistance to job seekers and industry	1,919	1,889	1,956	1,987	2,035	2,083
Industrial relations	355	465	382	350	364	370
Immigration	903	1,088	1,106	1,062	1,089	1,113
<i>Total labour and employment affairs</i>	<i>3,825</i>	<i>4,139</i>	<i>4,350</i>	<i>4,364</i>	<i>4,463</i>	<i>4,586</i>
Other economic affairs nec	840	990	1,069	1,073	1,059	1,110
<b>Total other economic affairs</b>	<b>4,874</b>	<b>5,322</b>	<b>5,617</b>	<b>5,634</b>	<b>5,719</b>	<b>5,895</b>
<b>Other purposes</b>						
Interest on Australian Government's behalf	3,627	3,596	3,485	3,370	3,353	3,219
Interest on behalf of states and territories	1	0	0	0	0	0
Interest received on Australian Government stock	0	0	0	0	0	0
<i>Public debt interest</i>	<i>3,628</i>	<i>3,596</i>	<i>3,485</i>	<i>3,370</i>	<i>3,353</i>	<i>3,219</i>
Nominal superannuation interest	5,582	5,730	6,192	6,294	6,517	6,706
General revenue assistance - states and territories	1,258	0	0	0	0	0
General capital assistance - states and territories	0	0	0	0	0	0
Debt assistance	220	0	0	0	0	0
Local government assistance	1,630	1,703	1,765	1,834	1,904	1,977
Revenue assistance to the states and territories	164	169	173	178	182	187
Assistance to other governments	664	725	687	728	756	728
<i>General purpose inter-government transactions</i>	<i>3,936</i>	<i>2,597</i>	<i>2,625</i>	<i>2,739</i>	<i>2,842</i>	<i>2,892</i>
Natural disaster relief	211	113	103	103	103	103
Contingency reserve(b)	36	578	389	3,979	7,360	11,073
<b>Total other purposes</b>	<b>13,393</b>	<b>12,613</b>	<b>12,794</b>	<b>16,486</b>	<b>20,176</b>	<b>23,993</b>
<b>Total expenses</b>	<b>206,096</b>	<b>221,625</b>	<b>235,590</b>	<b>247,489</b>	<b>259,652</b>	<b>272,669</b>

- (a) There has been a reclassification of some expenditure administered by the Department of Families, Community Services and Indigenous Affairs that was previously reported under the health assistance to the aged sub-function (health) to the assistance to the aged sub-function (social security and welfare).
- (b) Asset sale related expenses are now treated as a component of the contingency reserve.

## **APPENDIX B: THE CONTINGENCY RESERVE**

The contingency reserve (other purposes function) is an allowance, included in aggregate expenses figuring, to reflect anticipated events that cannot be assigned to individual programmes in the preparation of the Australian Government budget estimates. The reserve is an estimating device used to ensure that the budget estimates are based on the best information available at the time of the budget. It is not a general policy reserve.

While the reserve ensures that aggregate estimates are as close as possible to expected outcomes, it is not appropriated. Allowances that are included in the reserve can only be drawn upon once they have been appropriated by Parliament. These allowances are removed from the reserve and allocated to specific agencies for appropriation and for outcome reporting closer to the time when they eventuate.

The contingency reserve makes allowance in 2007-08 and the forward years for anticipated events, including the following:

- an allowance for the tendency for estimates of expenses for existing Government policy to be revised upwards in the forward years;
- commercial-in-confidence and national security-in-confidence items that cannot be disclosed separately and programmes that are yet to be renegotiated with State and Territory governments;
- decisions made too late for inclusion against individual agency estimates;
- the effect on the budget and forward estimates of economic parameter revisions received late in the process and hence not able to be allocated to individual agencies or functions; and
- provision for events and pressures that are reasonably expected to affect the budget estimates.

The contingency reserve may also include any expenses associated with the Government's major asset sales and associated administration costs.

# STATEMENT 7: ASSET AND LIABILITY MANAGEMENT

This statement covers the management of the major assets and liabilities on the Government's balance sheet and provides detailed information on Australian Government net debt and net worth.

<b>Net debt and net worth .....</b>	<b>7-3</b>
<b>Asset management .....</b>	<b>7-6</b>
<b>Liability management .....</b>	<b>7-9</b>





## **STATEMENT 7: ASSET AND LIABILITY MANAGEMENT**

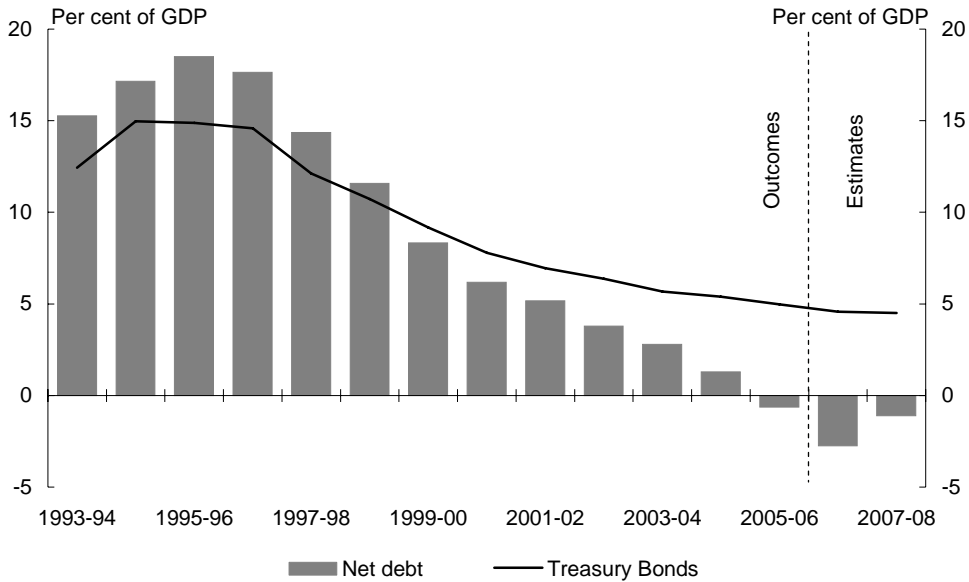
The Australian Government balance sheet provides information on the Government's assets and liabilities and provides an indication of the sustainability of government finances. Maintaining a strong balance sheet provides governments with the capacity and flexibility to deal with longer term fiscal pressures.

The balance sheet presents the Government's assets and liabilities which contribute to the calculation of net debt and net worth. A detailed balance sheet for the Australian Government general government sector is provided in Appendix B of Statement 2 (Table B2).

### **NET DEBT AND NET WORTH**

Net debt was eliminated in 2005-06 after falling from a peak of 18.5 per cent of GDP (\$95.8 billion) in 1995-96. Due to continuing strong economic and fiscal management net debt is expected to remain below zero in 2007-08 and over the forward years. Financial assets included in net debt reduce temporarily in 2007-08 (Chart 1). The change in the 2007-08 estimate is largely explained by the Future Fund progressively moving its assets out of cash and fixed interest securities, which are included in the calculation of net debt, into equities, which are excluded. Despite the low levels of net debt, the Government is committed to issuing sufficient Treasury Bonds to support the Treasury Bond futures market.

**Chart 1: Australian Government general government sector net debt and Treasury Bonds on issue**

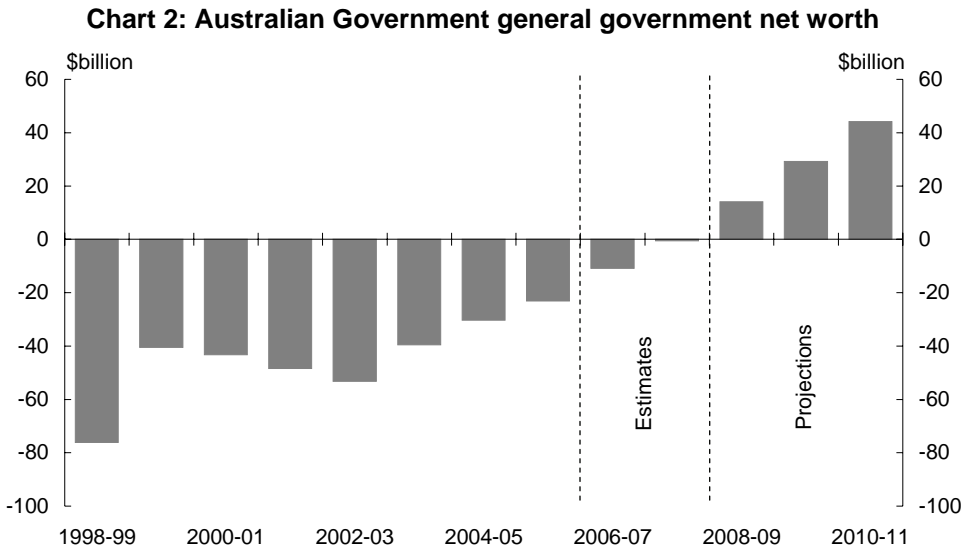


Source: Data are from ABS cat. no. 5501.0, Australian Government Final Budget Outcomes and Treasury estimates.

Australia’s net debt position compares favourably to other industrialised countries and is among the lowest in the OECD. The average net debt to GDP ratio in the OECD is around 45 per cent while for Australia it is below zero (see Chart 2 in Statement 1).

Net debt is a sub-set of the Government’s broader financial portfolio. It includes financial liabilities such as government securities and other loans and borrowing, and financial assets such as cash and deposits. Net debt is a common measure of the strength of a government’s fiscal position and performance.

Net worth is a broader measure of the Government’s overall financial position which incorporates the Government’s non-financial assets, such as land and other fixed assets, as well as certain financial assets and liabilities not included in net debt, most notably accrued employee superannuation liabilities. Australian Government general government sector net worth is projected to be positive by 2008-09 (Chart 2).

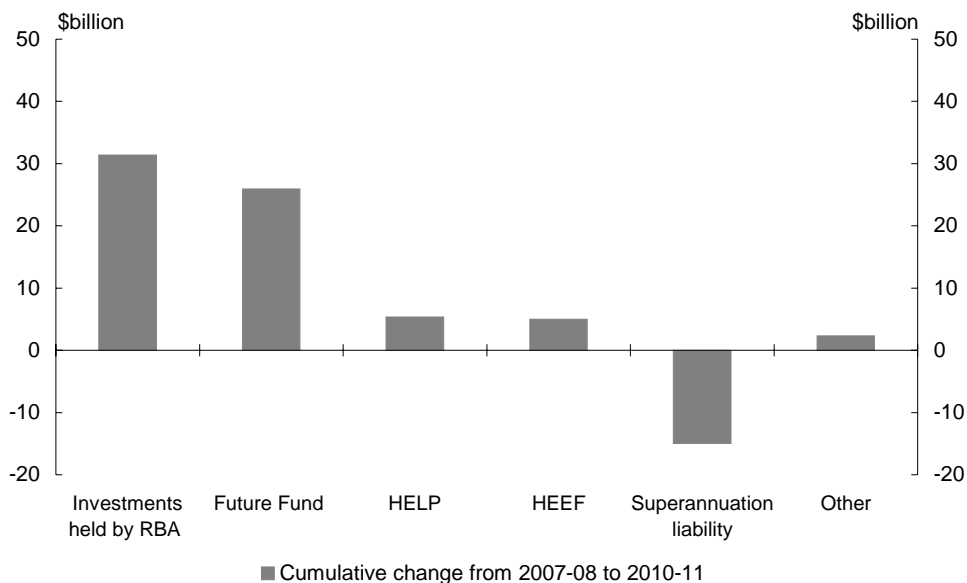


Source: Data are from ABS cat. no. 5501.0, Australian Government Final Budget Outcomes and Treasury estimates.

The present and projected improvement in net worth is primarily driven by budget surpluses and returns on investments in the Future Fund. The Government has projected surpluses over the forward estimates reflecting the current strength of the economy, while Future Fund earnings are expected to grow at a faster rate than other investments.

This increase in net worth is reflected in the balance sheet as higher term deposits at the Reserve Bank of Australia (RBA) from accumulated budget surpluses, an increase in Future Fund assets resulting from transfers to the Fund and earnings, the creation of the Higher Education Endowment Fund (HEEF), and growth in the Higher Education Loans Programme (HELP). These increases in assets significantly outweigh growth in the Government's liabilities over this period, which include the unfunded superannuation liabilities (Chart 3).

**Chart 3: Changes in the composition of net worth over the forward estimates**



Source: Treasury estimates.

The positive outlook for net worth and net debt means the Government is well placed to deal with future emerging fiscal pressures.

## ASSET MANAGEMENT

Strong fiscal outcomes over recent years have contributed to both an increase in the Government’s financial assets and in Australian Government net worth.

Continued budget surpluses, together with growth in Future Fund assets, will have an impact on the size and composition of Australian Government assets over the forward estimates.

### Investments held by the RBA

Accumulated budget surpluses are held on deposit at the RBA. These assets are managed by the Australian Office of Financial Management, which gives consideration to the Government’s cash management requirements and to achieving a rate of return on Government funds. The accumulation of surpluses at the RBA has a positive impact on both net debt and net worth.

### Telstra sale

During 2006-07 the Government sold the majority of its shareholding in Telstra (34 per cent) and transferred the first instalment of these proceeds, together with unsold shares, to the Future Fund. The second Telstra sale instalment is due to be

received in 2008. By undertaking these transfers the Government will reduce its financial risk relative to holding one single large asset, and will strengthen its financial position by investing in a diversified portfolio of financial assets.

Telstra shares will be held in escrow by the Future Fund Board of Guardians for a period of two years and then gradually sold over the medium-term.

## **Future Fund**

The Government established the Future Fund in 2005-06 with the aim of financing its unfunded superannuation liability – the largest liability on the Government’s balance sheet. The Future Fund is expected to offset this liability by around 2020, at a time when fiscal pressures from an ageing population are expected to emerge. The Government released the second Intergenerational Report in April this year which noted that demographic and other factors continue to pose substantial challenges for economic growth and long-term fiscal sustainability.

The Future Fund has now received over \$49 billion in contributions comprising \$18 billion in seed capital, \$13.6 billion from the 2005-06 Budget surplus, and \$17.6 billion from the Telstra sale proceeds, bringing the expected balance with earnings at June 2007 to around \$52 billion. The Government will consider a transfer to the Fund from the 2006-07 Budget surplus once it is realised. The Government also expects to make a further contribution to the Fund from the second instalment of Telstra sale proceeds.

The Budget assumes that all Future Fund assets, which are currently held as cash and fixed interest securities, will progressively be invested in a mix of cash, fixed interest and equities over the forward estimates. The actual allocation will depend on the investment strategy adopted by the Future Fund Board of Guardians.

Net debt will be affected over the forward estimates as some of the Future Fund’s current assets are converted to equities, which are not included in the calculation of net debt. However, in the long term the Future Fund is expected to contribute to an improvement in net debt through growth in its fixed interest and cash holdings (within a balanced asset portfolio).

The Future Fund is expected to improve the Australian Government’s net worth in the medium to long term due to an expectation that returns will be higher than those from other assets, such as term deposits held at the RBA.

All States and Territories are now making provision for their unfunded superannuation liabilities (Box 1).

### **Box 1: State and territory superannuation funding arrangements**

All of the States and Territories (the States) have substantial unfunded superannuation liabilities that have resulted from accrued superannuation entitlements from past and present public sector employees. Unfunded State superannuation liabilities are estimated at around \$45 billion in 2006-07.

The States have established funds to make provision for unfunded superannuation liabilities now rather than passing costs on to future generations. Annual contributions are typically made from the budget each year to independent trustees who manage the funds. Contributions are based on actuarial assessment with the aim of offsetting the unfunded liability by a specific date. The re-investment of earnings ensures that funds grow over time to help meet the growth in the unfunded superannuation liability.

Western Australia, New South Wales, South Australia and Victoria have established funds to meet their unfunded superannuation liabilities by the years 2025, 2030, 2034 and 2035 respectively. Tasmania expects to meet its superannuation liability by 2033, the Australian Capital Territory by 2030 and the Northern Territory by 2065. Queensland currently has sufficient assets to offset its superannuation liability. In all cases the principal and earnings are retained by the trustees to help fund superannuation expenses as they arise. These funds are not set aside for the purpose of meeting other government priorities.

### **Higher Education Endowment Fund**

The Government will establish a new, perpetual Higher Education Endowment Fund (HEEF) with an initial investment of \$5 billion funded from the 2006-07 surplus. The HEEF will be invested to earn income which will be distributed by the Minister for Education, Science and Training, after receiving advice from a panel of experts, to individual institutions for capital works and research facilities on an annual basis. The Future Fund Board of Guardians will be responsible for managing and investing the capital component of the HEEF.

It is intended that capital contributions will be made to the HEEF from future budget surpluses to grow, over time, a Fund which will finance the building of first class institutions in the Australian higher education sector. (See Budget Paper No. 2, *Realising Our Potential*.)

Since the earnings of the HEEF will be spent each year, the impact of the HEEF on net debt and net worth is not expected to change over time.

### **Higher Education Loan Programme**

The Higher Education Loan Programme (HELP), previously known as the Higher Education Contribution Scheme or HECS, is one of the largest financial assets on the

Government's balance sheet. This asset relates to concessional loans that are provided to students so they can defer payment of their student contributions until their income reaches a certain repayment threshold.

The HELP asset currently stands at \$12.7 billion and is estimated to grow to \$18.0 billion by 2010-11. This includes the impact of the 2007-08 Budget measures in the *Realising Our Potential* package (see Budget Paper No. 2). Due to the broader policy objectives associated with these concessional loans, returns may be lower than for other assets.

## **LIABILITY MANAGEMENT**

The major liabilities on the Australian Government's balance sheet are the superannuation liability for public sector employees and government debt securities. In 2007-08, these liabilities are estimated to comprise more than three quarters of total Australian Government liabilities.

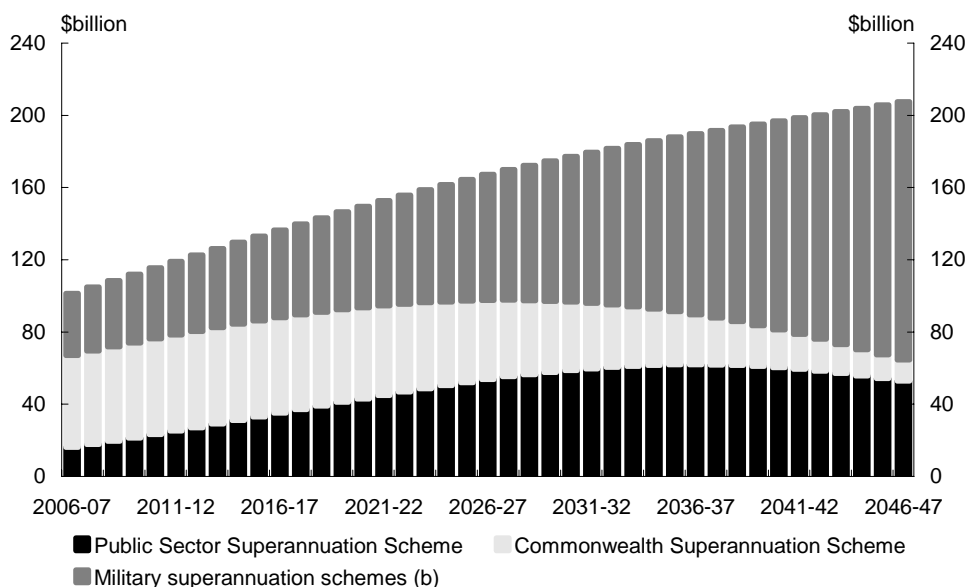
### **Public sector employee superannuation liabilities**

Public sector employee superannuation entitlements relating to past and present public sector employees constitute the largest financial liability on the Government's balance sheet. This liability is currently valued at around \$103 billion and is estimated to grow to around \$148 billion by 2020.

The Australian Government has never fully funded its superannuation liabilities. However, in 1990 and 2005 the Australian Government closed the main civilian superannuation schemes to new members. From 1 July 2005, the Government introduced the Public Sector Superannuation Accumulation Plan which provides fully-funded accumulation benefits for new civilian employees. Funding employee superannuation entitlements as they accrue contributes to improved net worth over the medium term. Further, the Government also successfully negotiated the extinguishment of its superannuation liability for Telstra and Australia Post in 2004, and its superannuation liability for former Tasmanian and South Australian State Rail employees in 2006. These initiatives are expected to reduce future calls on the budget at a time when significant intergenerational pressures are likely to emerge.

Despite these reforms the existing superannuation liability is expected to continue to grow, largely due to growth in the military superannuation schemes and continued growth of entitlements accruing to existing members of the closed civilian schemes. (Chart 4).

**Chart 4: Public sector superannuation liability<sup>(a)</sup>**



(a) The Public Sector Superannuation Scheme and the Commonwealth Superannuation Scheme (the main civilian schemes) and Military superannuation schemes form the dominant part of the Government’s total unfunded superannuation liability.

(b) Includes the Military Superannuation and Benefits Scheme and the Defence Force Retirement and Death Benefits Scheme.

Source: Department of Finance and Administration and Australian Government Actuary.

The value of the unfunded superannuation liability has increased since the 2006-07 Budget. This primarily reflects differences between the actuarial assumptions used and the actual experience of both the civilian and military superannuation schemes.

**Government securities — issuance in 2006-07 and 2007-08**

In line with the review of the Commonwealth Government Securities market in 2002-03, the Government will continue to issue debt, despite a strong fiscal position, in order to maintain liquid and efficient Treasury Bond and Treasury Bond futures markets.

Accordingly, the volume and timing of Treasury Bond issuance takes account of the need to have an appropriate range of Treasury Bonds available for inclusion in Treasury Bond futures baskets. The programme maintains a pattern where new 5-year and 13-year Treasury Bonds are launched in alternate years, with total issuance over two years of around \$5 billion in each line.

In 2006-07 one new stock was launched — the April 2012 Treasury Bond. Issuance into this bond line is expected to reach \$2.9 billion in the period remaining to 30 June 2007. Issuance in 2006-07 was also directed at building up the March 2019 bond line. A

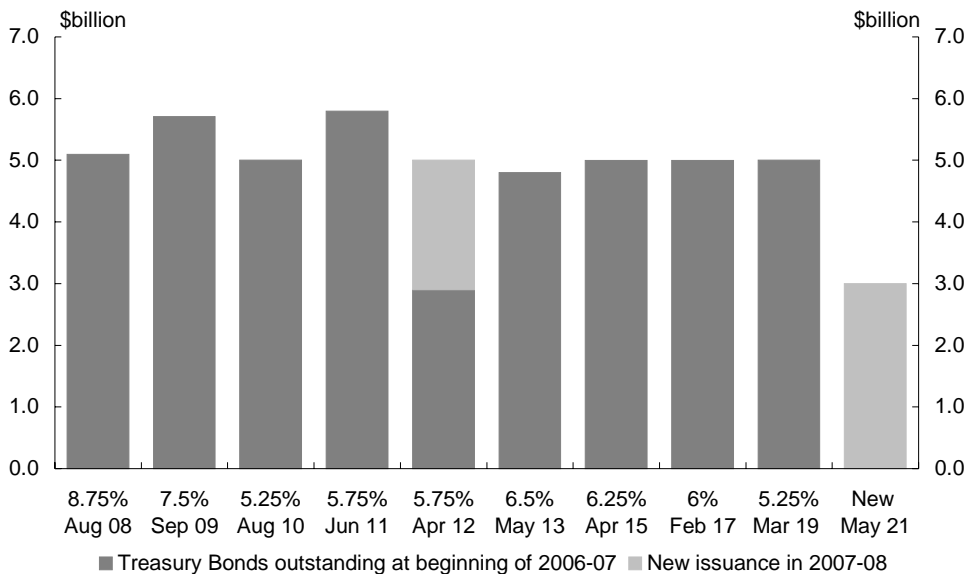


further \$2.4 billion was issued in this bond line bringing the total volume on issue for this line to its \$5 billion target.

In 2007-08, there will be \$2.1 billion of issuance of the April 2012 Treasury Bond, bringing the total volume on issue for this bond line to \$5.0 billion. In addition, it is planned to issue a new May 2021 Treasury Bond to support the operation of the 10-year Treasury Bond futures contract. It is planned to issue \$3.0 billion of this bond during 2007-08. The remaining issuance necessary to bring this bond line up to \$5.0 billion will be undertaken in the first half of 2008-09.

Total Treasury Bond issuance during 2007-08 will be \$5.1 billion, while scheduled maturities during this period, net of Australian Government holdings, are \$2.9 billion. As a result, the total stock of Treasury Bonds on issue, net of Australian Government holdings, will be around \$49.4 billion as at 30 June 2008 (Chart 5).

**Chart 5: Treasury Bonds outstanding expected at 30 June 2008<sup>(a)</sup>**



(a) Treasury Bonds on issue are net of Australian Government holdings.  
Source: Australian Office of Financial Management and Treasury estimates.



# STATEMENT 8: FINANCIAL REPORTING STANDARDS AND BUDGET CONCEPTS

This statement describes the financial accounting frameworks relevant to the Australian Government.

<b>Accrual GFS framework .....</b>	<b>8-3</b>
Operating statement.....	8-4
Balance sheet.....	8-5
Cash flow statement.....	8-5
Statement of other economic flows (reconciliation of net worth) .....	8-7
Sectoral classifications.....	8-7
<b>Australian Accounting Standard Reporting Framework.....</b>	<b>8-8</b>
<b>Reconciliation of GFS and AAS aggregates .....</b>	<b>8-8</b>



## STATEMENT 8: FINANCIAL REPORTING STANDARDS AND BUDGET CONCEPTS

The *Charter of Budget Honesty Act 1998* requires that the budget be based on external reporting standards. Accordingly, the major external standards used in the budget are the Australian Bureau of Statistics' (ABS) accrual Government Finance Statistics (GFS) framework and Australian Accounting Standards (AAS), being the Australian Equivalents to International Financial Reporting Standards (AEIFRS) and AAS 31 *Financial Reporting by Governments*. The major fiscal aggregates (including the fiscal and underlying cash balances) are based on the accrual GFS framework.

The Charter also requires that departures from applicable external reporting standards be identified. These are disclosed in Appendix A to Statement 2, the introduction to Statement 9, and Note 1 in Statement 10.

### ACCRUAL GFS FRAMEWORK

The GFS reporting framework is a specialised accounting and financial reporting system designed to support economic analysis of the public sector. It allows comprehensive assessments to be made of the economic impact of government and is consistent with international statistical standards (the *System of National Accounts 1993* (SNA93) and the International Monetary Fund's (IMF) *Government Finance Statistics Manual 2001*).<sup>1</sup>

The GFS conceptual framework is divided into a number of separate statements, each of which draws out analytical aggregates or balances of particular economic significance. Together, these aggregates provide for a thorough understanding of the financial position of the public sector. The GFS statements reported in the budget are the operating statement, balance sheet, cash flow statement and statement of other economic flows.

All GFS data are recorded as either stocks (assets and liabilities) or flows (classified as either transactions or other economic flows).

A transaction results from a mutually agreed interaction between economic entities. Despite their compulsory nature, taxes are transactions deemed to occur by mutual agreement between the government and the taxpayer. Transactions that increase or

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1 Additional information on the Australian accrual GFS framework is available in the ABS publication *Australian System of Government Finance Statistics: Concepts, Sources and Methods, 2005* (cat. no. 5514.0).

decrease net worth (assets minus liabilities) are reported as revenues and expenses respectively in the operating statement.<sup>2</sup>

A change to the value or volume of an asset or liability that does not result from a transaction is an other economic flow. This can include changes in values from market prices, most actuarial valuations and exchange rates and changes in volumes from discoveries, depletion and destruction. All other economic flows are reported in the statement of other economic flows.

Under the accrual GFS framework, flows are recorded in the period in which they occurred. As a result, prior period outcomes may be revised where information arises that could reasonably be expected to have been known in the past, is material in at least one of the affected periods and can be reliably assigned to the relevant period(s).

GFS financial statements are contained in Statements 2 and 9.

### **Operating statement**

The operating statement presents details of transactions in GFS revenues, GFS expenses and the net acquisition of non-financial assets (net capital investment) for an accounting period.

GFS revenues arise from transactions that increase net worth and GFS expenses arise from transactions that decrease net worth. GFS revenues less GFS expenses gives the GFS net operating balance. The net operating balance is comparable to the National Accounts concept of government saving plus capital transfers.

The net acquisition of non-financial assets (net capital investment) measures the change in the Australian Government's stock of non-financial assets due to transactions. As such, it measures the net effect of purchases, sales and consumption (for example, depreciation of fixed assets and use of inventory) of non-financial assets during an accounting period.

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

### **Fiscal balance**

The fiscal balance (or GFS net lending/borrowing) is the net operating balance less net capital investment. Thus, fiscal balance includes the impact of net expenditure

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2 Not all transactions impact on net worth. For example, transactions in financial assets and liabilities do not impact on net worth as they represent the swapping of assets and liabilities on the balance sheet.

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

The fiscal balance measures the Australian Government's investment-saving balance. It measures in accrual terms the gap between government savings plus net capital transfers, and investment in non-financial assets. As such, it approximates the contribution of the Australian Government general government sector to the balance on the current account in the balance of payments.

## **Balance sheet**

The balance sheet shows stocks of assets, liabilities and GFS net worth. Net debt is also reported in the balance sheet.

### **Net debt**

Net debt is the sum of selected financial liabilities (deposits held, advances received, government securities, loans, and other borrowing) less the sum of selected financial assets (cash and deposits, advances paid, and investments, loans and placements). Net debt does not include superannuation related liabilities. Net debt is a common measure of the strength of a government's financial position. High levels of net debt impose a call on future revenue flows to service that debt.

### **Net worth**

The net worth of the general government sector is defined as assets less liabilities. For the public financial corporations and public non-financial corporations sectors, net worth is defined as assets less liabilities less shares and other contributed capital. Net worth is an economic measure of wealth, reflecting the Australian Government's contribution to the wealth of Australia.

## **Cash flow statement**

The cash flow statement identifies how cash is generated and applied in a single accounting period. The cash flow statement reflects a cash basis of recording (rather than an accrual basis) where information is derived indirectly from underlying accrual transactions and movements in balances. This, in effect, means that transactions are captured when cash is received or when cash payments are made. Cash transactions are specifically identified because cash management is considered an integral function of accrual budgeting.

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3 The net operating balance includes consumption of non-financial assets because depreciation is a GFS expense. Depreciation also forms part of net capital investment, which (in the calculation of fiscal balance) offsets the inclusion of depreciation in the net operating balance.

### **Underlying cash balance**

The underlying cash balance plus Future Fund earnings (GFS cash surplus/deficit) is the cash counterpart of the fiscal balance, reflecting the Australian Government's cash investment-saving balance. This measure is conceptually equivalent under the current accrual framework and the previous cash framework. For the general government sector, the underlying cash balance is calculated as shown below.

Net cash flows from operating activities
<i>plus</i>
Net cash flows from investments in non-financial assets
<i>less</i>
Net acquisitions of assets acquired under finance leases and similar arrangements <sup>4</sup>
<i>equals</i>
GFS cash surplus/deficit
<i>less</i>
Future Fund earnings
<i>equals</i>
Underlying cash balance

The Government is reporting the underlying cash balance net of Future Fund earnings from 2005-06 onwards because the earnings will be reinvested to meet future superannuation payments and are therefore not available for current spending. However, Future Fund earnings are included in the fiscal balance because superannuation expenses relating to future cash payments are recorded in the fiscal balance estimates.

Expected Future Fund earnings are separately identified in the Australian Government cash flow statement in Table B3, Statement 2 and the historic tables in Statement 13.

### **Headline cash balance**

The headline cash balance is calculated by adding cash flows from investments in financial assets for policy purposes and Future Fund earnings to the underlying cash balance.

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4 The underlying cash balance treats the acquisition and disposal of non-financial assets in the same manner regardless of whether they occur by purchase/sale or finance lease – acquisitions reduce the underlying cash balance and disposals increase the underlying cash balance. However, finance leases do not generate cash flows at the time of acquisition or disposal equivalent to the value of the asset. As such, net acquisitions of assets under finance leases are not shown in the body of the cash flow statement but are reported as a supplementary item for the calculation of the underlying cash balance.



Cash flows from investments in financial assets for policy purposes include equity transactions and net advances.<sup>5</sup> Equity transactions include equity injections into controlled businesses and privatisations of government businesses. Net advances include net loans to the States, net loans to students under the Higher Education Loan Programme (HELP), and contributions to international organisations that increase the Australian Government’s financial assets.

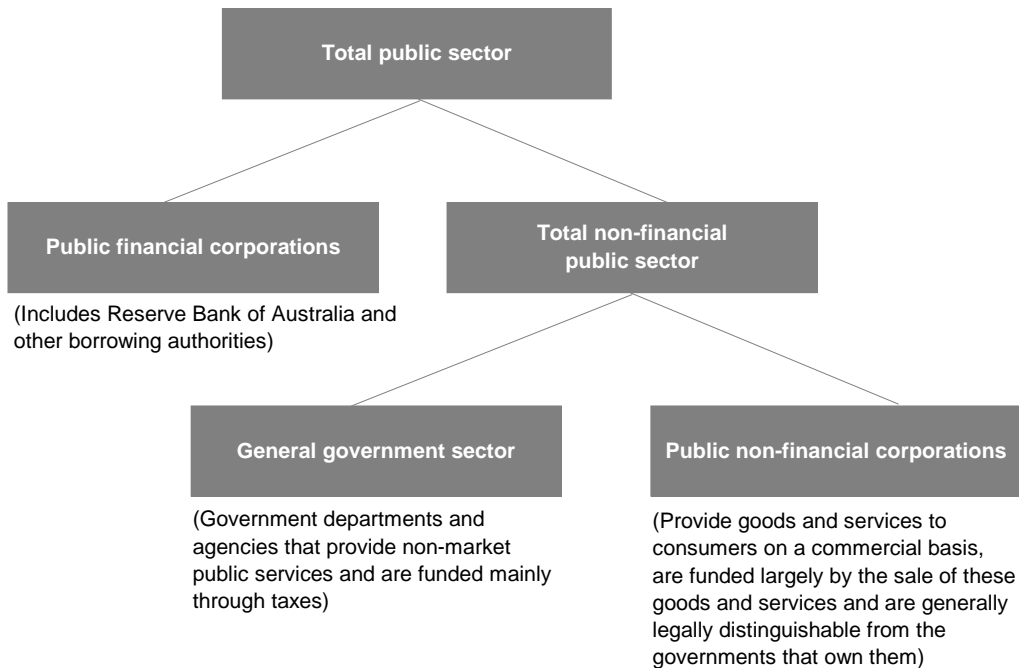
### Statement of other economic flows (reconciliation of net worth)

The statement of other economic flows outlines changes in net worth driven by economic flows other than GFS revenues and GFS expenses. GFS revenues, GFS expenses and other economic flows sum to the total change in net worth during a period. The majority of other economic flows for the Australian Government general government sector arise from price movements in its assets and liabilities.

### Sectoral classifications

To assist in analysing the public sector, GFS data are presented by institutional sector. GFS distinguishes between the general government sector, the public non-financial corporations sector and the public financial corporations sector, as shown in Figure 1.

**Figure 1: Institutional structure of the public sector**



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

## *Statement 8: Financial Reporting Standards and Budget Concepts*

Budget reporting focuses on the general government sector. The general government sector provides public services that are mainly non-market in nature, and for the collective consumption of the community, or involve the transfer or redistribution of income. These services are largely financed through taxes and other compulsory levies, although user charging and external funding have increased in recent years. This sector comprises all government departments, offices and some other bodies.

In preparing financial statements for the sectors all material transactions and balances between entities within the sectors are eliminated.

### **AUSTRALIAN ACCOUNTING STANDARD REPORTING FRAMEWORK**

The AAS reporting framework, being the AEIFRS and AAS 31, requires the preparation of accrual-based general purpose financial reports, showing government assets, liabilities, income, expenses and cash flows. Reporting under this framework is intended to provide a consolidated overview of the financial performance and financial position of government.

There are four main general purpose statements that must be prepared in accordance with the AAS framework. These are:

- an income statement, which includes an operating result;
- a balance sheet, which shows net assets;
- a statement of changes in equity, which shows movements in equity; and
- a cash flow statement, which includes the net increase/decrease in cash held.

In addition to these general purpose statements, notes to the financial statements are required. These notes include a summary of accounting policies, disaggregated information and other disclosures required by AAS.

A full set of AAS financial statements and accompanying notes prepared for the general government sector can be found in Statement 10.

### **RECONCILIATION OF GFS AND AAS AGGREGATES**

There is a general consistency of treatment of the elements of financial statements between GFS and AAS. Both frameworks are based on the concept of economic events that give rise to stocks and flows. As a result, the definitions of stocks are broadly similar under the two frameworks and relate to the control of economic benefits, while flows are defined with reference to changes in stocks.

## Statement 8: Financial Reporting Standards and Budget Concepts

The GFS and AAS definitions of the scope of the public sector agree in almost all cases, with AAS 31 recommending the same segmentation of the public sector into general government, public non-financial corporations and public financial corporations sectors.

Transactions are generally treated in a similar manner by GFS and AAS; however, where GFS is a framework designed to facilitate macro-economic analysis, AAS is designed for general purpose financial reporting. The different objectives of the two systems lead to some variation in the treatment of certain items. This differing treatment relates predominantly to the definitions of revenues and expenses under the two frameworks.

In particular, revaluations of assets and liabilities are classified differently under the AAS and GFS standards. Major revaluations include write-downs of bad and doubtful debts (excluding those that are mutually agreed), changes in the valuation of superannuation liabilities, and gains and losses due to changes in foreign exchange rates and interest rates.

Under AAS reporting, valuation changes may affect income or expenses and therefore the operating result. However, under GFS reporting, revaluations are not considered to be transactions (that is, they are considered to be other economic flows) and accordingly do not form part of revenues or expenses. Therefore, most revaluations are not taken into account in the calculation of the GFS net operating balance or fiscal balance. However, revaluations still impact on GFS assets and liabilities, as can be seen in the statement of other economic flows.

Some of the major differences between the GFS and AAS treatments of transactions are outlined in Table 1. Further information on the differences between the two systems is provided in the ABS publication *Australian System of Government Finance Statistics: Concepts, Sources and Methods, 2005* (cat. no. 5514.0).

**Table 1: Selected differences between AAS and GFS reporting standards**

Issue	AAS treatment	GFS treatment
Asset write-downs	Treated as part of operating expenses.	Treated as revaluations (other economic flows), except for mutually agreed write-downs, and therefore not included in expenses.
Gains and losses on assets	Treated as part of operating income/expenses.	Treated as revaluations (other economic flows) and therefore not included in revenues/expenses.
Provisions for bad and doubtful debts	Treated as part of operating expenses and included in the balance sheet as an offset to assets.	Act of creating provisions is not considered an economic event and is therefore not considered an expense or included in the balance sheet.  The Australian Government departs from this latter requirement (see Appendix A to Statement 2).
Interest flows related to swaps and other financial derivatives	Treated as operating income and expenses.	Treated as other economic flows and so not included in revenues and expenses.
Acquisition of defence weapons platforms	Treated as capital expenditure. Defence weapons platforms appear as an asset on the balance sheet. Depreciation expense on assets is recorded in the operating statement.	Treated as an expense at the time of acquisition. Defence weapons platforms do not appear as an asset on the balance sheet and no depreciation is recorded in the operating statement.
Valuation of assets and liabilities	Classes of assets and liabilities are measured using a range of methods. The predominant methods for valuing different asset classes include historic cost and market value.	Individual assets and liabilities are measured at current market value based on current market prices or a suitable proxy where market prices are not available.
Finance leases	Treats finance leases as if an asset were purchased from borrowings. That is, the lease payment is split into an interest component (which is shown as an operating expense) and a principal component.  The asset and the liability are recorded on the balance sheet.  This convention does not apply to the cash flow statement, which does not record the acquisition of the asset or the liability.	As per the accounting standard, except that the GFS cash flow statement includes the acquisition of the asset as a supplementary item for the calculation of the surplus/deficit and underlying cash balance.

Following the broad strategic direction of the Financial Reporting Council, the Australian Accounting Standards Board has recently finalised a new standard for financial reporting by the general government sector of governments. This standard (AASB 1049) will be applicable from the 2008-09 Budget.

Table 2 reconciles GFS revenue and expenses with their AAS counterparts.

**Table 2: Reconciliation of GFS and AAS revenue and expenses**

	Estimates		Projections		
	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m	2010-11 \$m
<b>GFS revenue (Statement 9)</b>	<b>276,259</b>	<b>289,851</b>	<b>306,226</b>	<b>322,424</b>	<b>337,612</b>
<i>less GST revenue for states and territories</i>	40,720	43,090	45,500	47,810	50,300
<b>GFS revenue (Statement 2)</b>	<b>235,539</b>	<b>246,761</b>	<b>260,726</b>	<b>274,614</b>	<b>287,312</b>
<i>plus asset revenue recognised for the first time</i>	478	207	114	126	119
<i>plus foreign exchange gains</i>	0	0	0	0	0
<i>plus other economic revaluations</i>	14,463	1,229	3,024	3,786	4,057
<i>plus proceeds from the sale of assets</i>	0	31	1,267	1	6
<i>plus swap interest revenue</i>	1,813	1,604	1,246	1,001	757
<b>AAS income (Statement 10)</b>	<b>252,293</b>	<b>249,831</b>	<b>266,377</b>	<b>279,528</b>	<b>292,251</b>
<b>GFS expenses (Statement 9)</b>	<b>261,405</b>	<b>277,650</b>	<b>291,909</b>	<b>306,332</b>	<b>321,759</b>
<i>less GST grants to states and territories</i>	39,580	41,850	44,200	46,450	48,850
<i>less GST mutually agreed writedowns</i>	200	210	220	230	240
<b>GFS expenses (Statement 2)</b>	<b>221,625</b>	<b>235,590</b>	<b>247,489</b>	<b>259,652</b>	<b>272,669</b>
<i>plus actuarial revaluations</i>	-197	-1	-1	-1	0
<i>plus net writedown of assets/bad and doubtful debts</i>	2,285	2,501	2,153	2,469	2,578
<i>plus foreign exchange losses</i>	52	0	0	0	0
<i>plus other economic adjustments</i>	0	-32	-3	0	-1
<i>plus value of assets sold</i>	803	0	0	0	0
<i>plus swap interest expense</i>	1,804	1,679	1,315	1,061	819
<i>plus defence weapons platforms depreciation</i>	2,683	2,738	2,740	2,597	2,476
<i>less defence weapons platforms investment</i>	4,471	4,665	5,969	6,643	6,744
<i>plus AusAid IDA/ADF expenses(a)</i>	0	0	0	0	0
<b>AAS expenses (Statement 10)</b>	<b>224,584</b>	<b>237,810</b>	<b>247,724</b>	<b>259,136</b>	<b>271,796</b>

(a) The treatment of IDA/ADF expenses under AAS has changed to reflect the capitalisation of core contributions, which is now consistent with the treatment under GFS.

Table 3 reconciles the AAS operating result to the GFS net operating balance and the fiscal balance (GFS net lending).

The AAS operating result is equal to AAS income less expenses. Similarly, GFS revenues less expenses equal the GFS net operating balance. Consequently, the reconciliation between the AAS operating result and the GFS net operating balance relates directly to differences in the definitions of revenues and expenses which are shown in Table 2.

The second part of the Table 3 reconciliation shows the adjustment for net capital investment required to derive the fiscal balance from the GFS net operating balance.

As discussed previously, the fiscal balance is calculated as the net operating balance less net capital investment. This is a useful economic indicator as it represents the gap between government saving (less capital transfers) and investment, and so is included at the end of the GFS operating statement. In AAS there is no equivalent measure to the fiscal balance. That is, the AAS income statement stops at the operating result and includes no information on net capital investment.

**Table 3: Reconciliation of AAS net operating result and fiscal balance**

	Estimates		Projections		
	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m	2010-11 \$m
<b>AAS operating result (Statement 10)</b>	<b>27,708</b>	<b>12,021</b>	<b>18,653</b>	<b>20,392</b>	<b>20,455</b>
Net differences from revenue and expense definitions	-12,855	179	-4,336	-4,300	-4,602
<b>GFS net operating balance (Statement 9)</b>	<b>14,854</b>	<b>12,200</b>	<b>14,317</b>	<b>16,092</b>	<b>15,853</b>
<i>less</i> purchase of property, plant and equipment and intangibles	8,112	8,350	9,331	9,965	10,281
<i>less</i> assets acquired under finance leases	34	4	502	6	0
<i>less</i> other non-financial assets	126	100	184	152	-187
<i>less</i> increase in inventories	624	111	187	215	411
<i>plus</i> defence weapons platforms investment	4,471	4,665	5,969	6,643	6,744
<i>plus</i> proceeds from sales of property, plant and equipment and intangibles	184	250	220	114	104
<i>plus</i> depreciation and amortisation	4,899	5,216	5,378	5,317	5,193
<i>less</i> weapons depreciation	2,683	2,738	2,740	2,597	2,476
<b>Fiscal balance (GFS net lending) (Statement 9)(a)</b>	<b>12,828</b>	<b>11,029</b>	<b>12,940</b>	<b>15,231</b>	<b>14,914</b>
<i>Impact of GST</i>	-940	-1,030	-1,080	-1,130	-1,210
<b>Fiscal balance (GFS net lending) (Statement 2)(a)</b>	<b>11,888</b>	<b>9,999</b>	<b>11,860</b>	<b>14,101</b>	<b>13,704</b>

(a) The fiscal balance estimates in Statement 9 are higher than those presented in Statement 2, as explained in the introduction to Statement 9.

# STATEMENT 9: GOVERNMENT FINANCE STATISTICS STATEMENTS

The financial tables presented in this statement are prepared in accordance with the Australian Bureau of Statistics (ABS) accrual Government Finance Statistics (GFS) framework.

The Australian, State and Territory governments have an agreed framework – the *Accrual Uniform Presentation Framework* – for the presentation of government financial information on a basis consistent with the ABS GFS publication. This statement presents Australian Government data on an ABS GFS basis, as required by the *Accrual Uniform Presentation Framework*, except for the departures (other than in relation to the treatment of goods and services tax (GST)) detailed in Appendix A to Statement 2.

In accordance with *Accrual Uniform Presentation Framework* requirements, this statement also contains an update of the Australian Government’s Loan Council Allocation.

<b>Government Finance Statistics Statements.....</b>	<b>9-5</b>
<b>Appendix A: Australian Loan Council Allocation .....</b>	<b>9-17</b>





# STATEMENT 9: GOVERNMENT FINANCE STATISTICS STATEMENTS

Financial tables presented in this statement are prepared in accordance with the Australian Bureau of Statistics' (ABS) accrual Government Finance Statistics (GFS) framework.

The tables include an operating statement, balance sheet and cash flow statement for the Australian Government general government, public non-financial corporations and total non-financial public sectors. A statement of other economic flows is also included for the Australian Government general government sector.

The Australian, State and Territory governments have an agreed framework – the *Accrual Uniform Presentation Framework* – for the presentation of government financial information on a basis consistent with the ABS GFS publication. This statement presents Australian Government data on an ABS GFS basis, as required by the *Accrual Uniform Presentation Framework*, except for the departures (other than in relation to the treatment of goods and services tax (GST)) detailed in Appendix A to Statement 2.

The only difference between the Australian Government general government sector statements in Statement 2 and this statement is the treatment of the GST. The clear policy intent of the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* is that GST is collected by the Australian Taxation Office, as an agent for the States and Territories (the States), and appropriated to the States. Consequently, it is not shown as Australian Government revenue in other parts of this document. However, the tables in this statement show GST as taxation revenue and payments to the States as grant expenses.

As a result of the different treatments of GST related transactions, fiscal balance, net operating balance and net worth estimates in this statement differ from those reported elsewhere in this document. This difference represents the effect of GST revenue accrued but not yet received and, therefore, not yet paid or payable to the States (as GST obligations to the States are on a cash basis).<sup>1</sup> The cash flows presented in this statement include GST (except in respect to GST flows internal to the general government sector), whereas the cash flows presented elsewhere in this document do not. The GFS cash surplus/deficit is not affected and provides identical results under both treatments of GST receipts.

Transactions between the Australian Government general government and public non-financial corporations sectors are included in the relevant tables, but removed

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1 Table 3 in Statement 8 shows the difference in the net operating and fiscal balance estimates resulting from the two treatments. The change in expenses when moving between the two GFS presentations of the estimates is less than the change in revenue.

*Statement 9: Government Finance Statistics Statements*

from the total non-financial public sector tables as they are transactions internal to that sector.

Computer software and other intangibles are recorded at historic costs, as an active market is not observable for such assets. This affects the public non-financial corporations sector balance sheet, but does not affect the general government sector balance sheet.

Statement 8 provides reconciliations between key GFS aggregates and their Australian Accounting Standards counterparts.

In accordance with *Accrual Uniform Presentation Framework* requirements, this statement also contains an update of the Australian Government's Loan Council Allocation.

## GOVERNMENT FINANCE STATISTICS STATEMENTS

**Table 1: Australian Government general government sector operating statement**

	Estimates		Projections		
	2006-07	2007-08	2008-09	2009-10	2010-11
	\$m	\$m	\$m	\$m	\$m
<b>GFS revenue</b>					
Taxation revenue	261,186	274,159	289,566	304,446	317,562
Current grants and subsidies	0	0	0	0	0
Sales of goods and services	5,008	5,220	5,362	5,541	5,950
Interest income	3,841	4,147	3,979	4,879	4,562
Dividend income	2,774	2,966	3,832	3,944	4,035
Other	3,449	3,357	3,487	3,615	5,504
<b>Total GFS revenue</b>	<b>276,259</b>	<b>289,851</b>	<b>306,226</b>	<b>322,424</b>	<b>337,612</b>
<b>GFS expenses</b>					
Gross operating expenses					
Depreciation	2,216	2,478	2,638	2,720	2,717
Superannuation	2,371	2,487	2,536	2,593	2,672
Salaries and wages	13,854	14,701	14,802	15,209	15,650
Payment for supply of goods and services	50,931	55,684	58,857	62,020	65,562
Other operating expenses	3,151	3,463	3,750	3,930	4,448
<i>Total gross operating expenses</i>	<i>72,523</i>	<i>78,813</i>	<i>82,584</i>	<i>86,472</i>	<i>91,049</i>
Nominal superannuation interest expense	5,730	6,192	6,294	6,517	6,706
Other interest expenses	3,957	3,836	3,754	3,722	3,588
Other property expenses	0	0	0	0	0
Current transfers					
Grant expenses	81,282	86,857	90,768	94,895	99,452
Subsidy expenses	6,890	7,337	7,498	7,691	7,945
Personal benefit payments in cash	85,036	87,448	93,323	99,410	105,498
Other current transfers	0	0	0	0	0
<i>Total current transfers</i>	<i>173,208</i>	<i>181,642</i>	<i>191,589</i>	<i>201,995</i>	<i>212,895</i>
Capital transfers	5,986	7,168	7,687	7,625	7,521
<b>Total GFS expenses</b>	<b>261,405</b>	<b>277,650</b>	<b>291,909</b>	<b>306,332</b>	<b>321,759</b>
<b>Net operating balance(a)</b>	<b>14,854</b>	<b>12,200</b>	<b>14,317</b>	<b>16,092</b>	<b>15,853</b>
<b>Net acquisition of non-financial assets</b>					
Purchases of non-financial assets	3,675	3,689	3,864	3,328	3,537
<i>less</i> Sales of non-financial assets	184	199	216	109	109
<i>less</i> Depreciation	2,216	2,478	2,638	2,720	2,717
<i>plus</i> Change in inventories	624	111	187	215	411
<i>plus</i> Other movements in non-financial assets	126	49	180	148	-182
<b>Total net acquisition of non-financial assets</b>	<b>2,025</b>	<b>1,171</b>	<b>1,377</b>	<b>861</b>	<b>939</b>
<b>Net lending/fiscal balance(a)(b)</b>	<b>12,828</b>	<b>11,029</b>	<b>12,940</b>	<b>15,231</b>	<b>14,914</b>

(a) The fiscal balance and net operating balance estimates in this table differ from those presented elsewhere in the budget reflecting the treatment of the GST as an Australian Government tax.

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

**Table 2: Australian Government general government sector balance sheet**

	Estimates		Projections		
	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m	2010-11 \$m
<b>GFS assets</b>					
Financial assets					
Cash and deposits	2,008	2,348	2,778	2,297	2,121
Advances paid	22,468	24,122	25,849	27,439	29,277
Investments, loans and placements	67,820	51,488	66,025	79,643	85,457
Other non-equity assets	36,754	30,437	30,403	31,251	32,443
Equity(a)	31,260	68,014	70,223	73,195	76,379
<i>Total financial assets</i>	<i>160,310</i>	<i>176,409</i>	<i>195,278</i>	<i>213,825</i>	<i>225,677</i>
Non-financial assets					
Land	6,181	6,276	6,365	6,355	6,402
Buildings	15,193	15,782	16,938	17,652	18,351
Plant, equipment and infrastructure	9,481	9,898	9,881	9,748	9,824
Inventories	5,532	5,643	5,830	6,045	6,456
Heritage and cultural assets	8,074	8,109	8,134	8,164	8,188
Other non-financial assets	3,382	3,358	3,406	3,518	3,335
<i>Total non-financial assets</i>	<i>47,844</i>	<i>49,067</i>	<i>50,555</i>	<i>51,483</i>	<i>52,556</i>
<b>Total GFS assets</b>	<b>208,154</b>	<b>225,477</b>	<b>245,833</b>	<b>265,308</b>	<b>278,234</b>
<b>GFS liabilities</b>					
Deposits held	300	300	300	300	300
Advances received	0	0	0	0	0
Government securities	57,275	59,269	59,355	58,723	50,715
Loans	5,846	5,940	5,774	5,653	5,834
Other borrowing	431	400	856	816	773
Superannuation liability	102,744	106,552	110,264	113,983	117,720
Other employee entitlements and provisions	8,215	8,465	8,815	9,185	9,606
Other non-equity liabilities	35,466	35,839	36,505	36,999	37,939
<b>Total GFS liabilities</b>	<b>210,278</b>	<b>216,765</b>	<b>221,870</b>	<b>225,658</b>	<b>222,888</b>
<b>Net worth(b)(c)</b>	<b>-2,124</b>	<b>8,711</b>	<b>23,963</b>	<b>39,650</b>	<b>55,346</b>
Net financial worth(d)	-49,968	-40,356	-26,592	-11,833	2,790
Net debt(e)(f)	-28,444	-12,049	-28,366	-43,887	-59,233

(a) Equity includes equity holdings of the Future Fund.

(b) The net worth estimates in this table differ from those presented elsewhere in the budget reflecting the treatment of GST as an Australian Government tax.

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

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

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

(f) Includes the impact of the sale of the Government's holding in Telstra. The net debt estimate in 2007-08 is a result of an assumption that the Future Fund will increasingly be invested in equities, which are not included in the calculation of net debt.

**Table 3: Australian Government general government sector cash flow statement<sup>(a)</sup>**

	Estimates		Projections		
	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m	2010-11 \$m
<b>Cash receipts from operating activities</b>					
Taxes received(b)	255,989	268,701	283,769	298,525	311,694
Receipts from sales of goods and services(c)	5,044	5,247	5,402	5,555	5,965
Grants and subsidies received	0	0	0	0	0
Interest receipts	3,736	3,992	3,743	4,636	5,391
Dividends	3,120	2,926	3,837	3,949	4,085
GST input credits received by general government(c)	0	0	0	0	0
Other receipts	2,932	3,160	3,263	3,357	4,133
<b>Total operating receipts</b>	<b>270,821</b>	<b>284,027</b>	<b>300,013</b>	<b>316,023</b>	<b>331,268</b>
<b>Cash payments for operating activities</b>					
Payments for goods and services(c)	-52,560	-58,279	-61,182	-64,270	-67,239
Grants and subsidies paid(d)	-91,920	-98,052	-101,879	-107,120	-112,029
Interest paid	-3,911	-3,601	-3,582	-3,461	-4,340
Personal benefit payments	-81,929	-84,687	-90,786	-97,076	-103,443
Salaries, wages and other entitlements	-18,558	-19,628	-19,998	-20,640	-22,041
GST payments by general government to taxation authority(c)	0	0	0	0	0
Other payments for operating activities	-2,734	-2,745	-3,428	-3,516	-3,641
<b>Total operating payments</b>	<b>-251,611</b>	<b>-266,992</b>	<b>-280,855</b>	<b>-296,083</b>	<b>-312,733</b>
<b>Net cash flows from operating activities</b>	<b>19,210</b>	<b>17,035</b>	<b>19,159</b>	<b>19,940</b>	<b>18,536</b>
<b>Cash flows from investments in   non-financial assets</b>					
Sales of non-financial assets	184	250	222	114	104
Purchases of non-financial assets	-3,599	-3,654	-3,373	-3,323	-3,198
<b>Net cash flows from investments in   non-financial assets</b>	<b>-3,415</b>	<b>-3,404</b>	<b>-3,152</b>	<b>-3,209</b>	<b>-3,094</b>
<b>Net cash flows from investments in   financial assets for policy purposes</b>	<b>7,649</b>	<b>4,652</b>	<b>-18</b>	<b>-1,923</b>	<b>-2,150</b>
<b>Cash flows from investments in   financial assets for liquidity purposes</b>					
Increase in investments	-22,476	-19,918	-15,425	-14,274	-6,372
<b>Net cash flows from investments in   financial assets for liquidity purposes</b>	<b>-22,476</b>	<b>-19,918</b>	<b>-15,425</b>	<b>-14,274</b>	<b>-6,372</b>
<b>Cash flows from financing activities</b>					
Advances received (net)	0	0	0	0	0
Borrowing (net)	-1,312	2,336	154	-705	-6,987
Deposits received (net)	-20	0	0	0	0
Other financing (net)	426	-361	-289	-310	-108
<b>Net cash flows from financing activities</b>	<b>-905</b>	<b>1,976</b>	<b>-134</b>	<b>-1,014</b>	<b>-7,096</b>
<b>Net increase/decrease in cash held</b>	<b>63</b>	<b>340</b>	<b>430</b>	<b>-481</b>	<b>-176</b>

**Table 3: Australian Government general government sector cash flow statement<sup>(a)</sup> (continued)**

	Estimates		Projections		
	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m	2010-11 \$m
<b>Net cash from operating activities and investments in non-financial assets</b>	<b>15,795</b>	<b>13,631</b>	<b>16,007</b>	<b>16,731</b>	<b>15,442</b>
Finance leases and similar arrangements(e)	-34	-4	-502	-6	0
<b>Equals surplus(+)/deficit(-)</b>	<b>15,761</b>	<b>13,628</b>	<b>15,505</b>	<b>16,725</b>	<b>15,442</b>

(a) A positive number denotes a cash inflow; a negative sign denotes a cash outflow.

(b) Includes GST cash receipts on an Australian Government tax basis, which is \$6 million lower in 2007-08 than GST cash receipts measured on a State tax basis (as shown in Statement 10, Note 16).

(c) GST flows are excluded from these categories.

(d) Includes GST cash payments on an Australian Government tax basis.

(e) The acquisition of assets under finance leases decreases the surplus or increases the deficit. The disposal of assets previously held under finance leases increases the surplus or decreases the deficit.

**Table 4: Australian Government general government sector statement of other economic flows (reconciliation of net worth)**

	Estimates		Projections		
	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m	2010-11 \$m
<b>Opening net worth</b>	<b>-15,245</b>	<b>-2,124</b>	<b>8,711</b>	<b>23,963</b>	<b>39,650</b>
<b>Opening net worth adjustments(a)</b>	<b>287</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Adjusted opening net worth</b>	<b>-14,958</b>	<b>-2,124</b>	<b>8,711</b>	<b>23,963</b>	<b>39,650</b>
<b>Change in net worth from operating transactions</b>	14,854	12,200	14,317	16,092	15,853
<b>Change in net worth from other economic flows</b>					
Revaluation of equity(b)	964	880	3,334	2,308	2,572
Net writedowns of assets (including bad and doubtful debts)	-2,139	-2,731	-2,503	-2,839	-2,978
Assets recognised for the first time	161	7	14	26	19
Liabilities recognised for the first time	0	0	0	0	0
Actuarial revaluations	-1,245	1	1	1	0
Net foreign exchange gains	-52	0	0	0	0
Net swap interest received	8	-76	-70	-60	-62
Market valuation of debt	564	212	124	92	105
Other economic revaluations(c)	-281	341	34	68	186
<b>Total other economic flows</b>	<b>-2,020</b>	<b>-1,365</b>	<b>934</b>	<b>-404</b>	<b>-158</b>
<b>Closing net worth</b>	<b>-2,124</b>	<b>8,711</b>	<b>23,963</b>	<b>39,650</b>	<b>55,346</b>

(a) Change in net worth arising from a change in 2005-06 outcomes.

(b) Revaluations of equity reflect changes in the market valuation of investments. This line also reflects any revaluations at the point of disposal or sale.

(c) Largely reflects revaluation of assets and liabilities.

**Table 5: Australian Government public non-financial corporations operating statement**

	Estimates	
	2006-07 \$m	2007-08 \$m
<b>GFS revenue</b>		
Current grants and subsidies	113	0
Sales of goods and services	15,263	6,853
Interest income	115	75
Other	32	2
<b>Total GFS revenue</b>	<b>15,523</b>	<b>6,930</b>
<b>GFS expenses</b>		
Gross operating expenses		
Depreciation	1,732	295
Salaries, wages and other entitlements	4,252	2,995
Other operating expenses	6,568	2,863
<i>Total gross operating expenses(a)</i>	<i>12,552</i>	<i>6,154</i>
Interest expenses	252	44
Other property expenses(a)	2,143	408
Current transfers		
Tax expenses	1,171	252
Other current transfers	0	0
<i>Total current transfers</i>	<i>1,171</i>	<i>252</i>
Capital transfers	0	0
<b>Total GFS expenses</b>	<b>16,119</b>	<b>6,857</b>
<b>Net operating balance</b>	<b>-596</b>	<b>72</b>
<b>Net acquisition of non-financial assets</b>		
Purchases of non-financial assets	2,890	1,341
<i>less</i> Sales of non-financial assets	<i>40</i>	<i>42</i>
<i>less</i> Depreciation	<i>1,732</i>	<i>295</i>
<i>plus</i> Change in inventories	<i>-214</i>	<i>-2</i>
<i>equals</i> Total net capital formation	<i>905</i>	<i>1,001</i>
<i>plus</i> Other movements in non-financial assets	<i>-212</i>	<i>0</i>
<b>Total net acquisition of non-financial assets</b>	<b>693</b>	<b>1,002</b>
<b>Net lending/fiscal balance(b)</b>	<b>-1,289</b>	<b>-929</b>

(a) Dividends paid to government have been reclassified from operating expenses to other property expenses.

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

Note: The significant reduction in transactions in 2007-08 is due to the sale of the Government's majority shareholding in Telstra.



**Table 6: Australian Government public non-financial corporations balance sheet**

	Estimates	
	2006-07 \$m	2007-08 \$m
<b>GFS assets</b>		
Financial assets		
Cash and deposits	1,057	679
Advances paid	1	1
Investments, loans and placements	1,426	1,383
Other non-equity assets	1,393	1,017
Equity	454	597
<i>Total financial assets</i>	<i>4,331</i>	<i>3,677</i>
Non-financial assets		
Land and fixed assets	3,337	4,338
Other non-financial assets(a)	119	159
<i>Total non-financial assets</i>	<i>3,456</i>	<i>4,498</i>
<b>Total GFS assets</b>	<b>7,786</b>	<b>8,175</b>
<b>GFS liabilities</b>		
Deposits held	0	0
Advances received	0	0
Borrowing	682	708
Unfunded superannuation liability and other employee entitlements	1,011	1,019
Provisions (other than depreciation and bad and doubtful debts)(a)	435	596
Other non-equity liabilities	651	691
<b>Total GFS liabilities</b>	<b>2,780</b>	<b>3,014</b>
<b>Shares and other contributed capital</b>	<b>5,007</b>	<b>5,161</b>
<b>Net worth(b)</b>	<b>0</b>	<b>0</b>
Net financial worth(c)	-3,456	-4,498
Net debt(d)	-1,802	-1,356

(a) Includes the elimination of commercial taxation adjustments.

(b) Net worth is calculated as total assets minus total liabilities minus shares and other contributed capital. A zero net worth is recorded as shares and contributed capital for the non-financial corporations controlled by the Government are valued at net assets (a proxy for market value for unlisted companies).

(c) Net financial worth equals total financial assets minus total liabilities minus shares and other contributed capital. That is, it excludes non-financial assets.

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

**Table 7: Australian Government public non-financial corporations cash flow statement**

	Estimates	
	2006-07 \$m	2007-08 \$m
<b>Cash receipts from operating activities</b>		
Receipts from sales of goods and services	16,936	7,769
Grants and subsidies received	63	0
GST input credit receipts	0	0
Other receipts	112	113
<b>Total operating receipts</b>	<b>17,110</b>	<b>7,882</b>
<b>Cash payments for operating activities</b>		
Payment for goods and services	-7,657	-3,520
Interest paid	-141	-43
Salaries, wages and other entitlements	-4,209	-2,812
GST payments to taxation authority	-600	-325
Other payments for operating activities	-1,215	-240
<b>Total operating payments(b)</b>	<b>-13,822</b>	<b>-6,941</b>
<b>Net cash flows from operating activities</b>	<b>3,288</b>	<b>941</b>
<b>Cash flows from investments in non-financial assets</b>		
Sales of non-financial assets	44	42
Purchases of non-financial assets	-2,678	-1,338
<b>Net cash flows from investments in non-financial assets</b>	<b>-2,634</b>	<b>-1,297</b>
<b>Net cash flows from investments in financial assets for policy purposes</b>	<b>0</b>	<b>0</b>
<b>Cash flows from investments in financial assets for liquidity purposes</b>		
Increase in investments	-234	200
<b>Net cash flows from investments in financial assets for liquidity purposes</b>	<b>-234</b>	<b>200</b>
<b>Cash flows from financing activities</b>		
Advances received (net)	0	0
Borrowing (net)	51	31
Deposits received (net)	0	0
Distributions paid (net)(b)	-2,170	-400
Other financing (net)	992	120
<b>Net cash flows from financing activities</b>	<b>-1,127</b>	<b>-249</b>
<b>Net increase/decrease in cash held</b>	<b>-708</b>	<b>-405</b>
<b>Net cash from operating activities and investments in non-financial assets</b>	<b>654</b>	<b>-355</b>
Finance leases and similar arrangements(c)	0	0
Distributions paid(b)	-2,170	-400
<b>Equals surplus(+)/deficit(-)</b>	<b>-1,517</b>	<b>-756</b>

(a) A positive number denotes a cash inflow; a negative sign denotes a cash outflow.

(b) Dividends paid to government have been reclassified from operating payments to distributions paid.

(c) The acquisition of assets under finance leases decreases the surplus or increases the deficit. The disposal of assets previously held under finance leases increases the surplus or decreases the deficit.

Note: The significant reduction in transactions in 2007-08 is due to the sale of the Government's majority shareholding in Telstra.

**Table 8: Australian Government total non-financial public sector operating statement**

	Estimates	
	2006-07 \$m	2007-08 \$m
<b>GFS revenue</b>		
Taxation revenue	259,965	273,907
Current grants and subsidies	0	0
Sales of goods and services	19,592	11,208
Interest income	3,956	4,222
Dividend income	1,470	2,558
Other	3,481	3,359
<b>Total GFS revenue</b>	<b>288,464</b>	<b>295,255</b>
<b>GFS expenses</b>		
Gross operating expenses		
Depreciation	3,948	2,773
Superannuation	2,471	2,589
Salaries and wages	18,106	17,696
Payment for supply of goods and services	56,610	57,580
Other operating expenses	3,211	3,463
<i>Total gross operating expenses</i>	<i>84,346</i>	<i>84,102</i>
Nominal superannuation interest expense	5,730	6,192
Other interest expenses	4,209	3,879
Other property expenses	839	0
Current transfers		
Grant expenses	81,282	86,857
Subsidy expenses	6,777	7,337
Personal benefit payments in cash	85,036	87,448
Other current transfers	0	0
<i>Total current transfers</i>	<i>173,095</i>	<i>181,642</i>
Capital transfers	5,986	7,168
<b>Total GFS expenses</b>	<b>274,206</b>	<b>282,982</b>
<b>Net operating balance(a)</b>	<b>14,258</b>	<b>12,273</b>
<b>Net acquisition of non-financial assets</b>		
Purchases of non-financial assets	6,566	5,029
<i>less</i> Sales of non-financial assets	<i>224</i>	<i>240</i>
<i>less</i> Depreciation	<i>3,948</i>	<i>2,773</i>
<i>plus</i> Change in inventories	<i>411</i>	<i>109</i>
<i>plus</i> Other movements in non-financial assets	<i>-87</i>	<i>49</i>
<b>Total net acquisition of non-financial assets</b>	<b>2,718</b>	<b>2,173</b>
<b>Net lending/fiscal balance(a)(b)</b>	<b>11,540</b>	<b>10,100</b>

(a) The fiscal balance and net operating balance estimates in this table differ from those presented elsewhere in the Budget reflecting the treatment of the GST as an Australian Government tax.

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

**Table 9: Australian Government total non-financial public sector balance sheet**

	Estimates	
	2006-07 \$m	2007-08 \$m
<b>GFS assets</b>		
Financial assets		
Cash and deposits	3,064	3,027
Advances paid	22,469	24,123
Investments, loans and placements	69,247	52,872
Other non-equity assets	38,047	31,328
Equity	26,707	63,450
<i>Total financial assets</i>	<i>159,534</i>	<i>174,800</i>
Non-financial assets		
Land and fixed assets	47,798	50,047
Other non-financial assets	3,501	3,517
<i>Total non-financial assets</i>	<i>51,299</i>	<i>53,565</i>
<b>Total GFS assets</b>	<b>210,833</b>	<b>228,364</b>
<b>GFS liabilities</b>		
Deposits held	300	300
Advances received	0	0
Government securities	57,275	59,269
Loans	5,846	5,940
Other borrowing	1,113	1,108
Unfunded superannuation liability and other employee entitlements	111,971	116,036
Other provisions	7,676	7,594
Other non-equity liabilities	28,776	29,407
<b>Total GFS liabilities</b>	<b>212,957</b>	<b>219,654</b>
<b>Shares and other contributed capital</b>	<b>0</b>	<b>0</b>
<b>Net worth(a)</b>	<b>-2,124</b>	<b>8,712</b>
Net financial worth(b)	-53,423	-44,854
Net debt(c)	-30,245	-13,405

(a) Net worth is calculated as total assets minus total liabilities minus shares and other contributed capital.

(b) Net financial worth equals total financial assets minus total liabilities minus shares and other contributed capital. That is, it excludes non-financial assets.

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

**Table 10: Australian Government total non-financial public sector cash flow statement<sup>(a)</sup>**

	Estimates	
	2006-07 \$m	2007-08 \$m
<b>Cash receipts from operating activities</b>		
Taxes received	254,817	268,451
Receipts from sales of goods and services(b)	20,841	12,445
Grants and subsidies received	0	0
Interest receipts	3,727	4,061
Dividends	1,846	2,564
GST input credit receipts(b)	0	0
Other receipts	3,023	3,167
<b>Total operating receipts</b>	<b>284,254</b>	<b>290,688</b>
<b>Cash payments for operating activities</b>		
Payments for goods and services(b)	-59,679	-61,556
Grants and subsidies paid	-91,856	-98,052
Interest paid	-4,052	-3,645
Personal benefit payments	-81,929	-84,687
Salaries, wages and other entitlements	-22,767	-22,440
GST payments to taxation authority(b)	0	0
Other payments for operating activities	-2,778	-2,733
<b>Total operating payments</b>	<b>-263,061</b>	<b>-273,112</b>
<b>Net cash flows from operating activities</b>	<b>21,194</b>	<b>17,576</b>
<b>Cash flows from investments in non-financial assets</b>		
Sales of non-financial assets	228	292
Purchases of non-financial assets	-6,278	-4,992
<b>Net cash flows from investments in non-financial assets</b>	<b>-6,049</b>	<b>-4,700</b>
<b>Net cash flows from investments in financial assets for policy purposes</b>	<b>7,649</b>	<b>4,652</b>
<b>Cash flows from investments in financial assets for liquidity purposes</b>		
Increase in investments	-22,711	-19,718
<b>Net cash flows from investments in financial assets for liquidity purposes</b>	<b>-22,711</b>	<b>-19,718</b>
<b>Cash flows from financing activities</b>		
Advances received (net)	0	0
Borrowing (net)	-1,261	2,367
Deposits received (net)	-20	0
Distributions paid (net)	-866	0
Other financing (net)	1,419	-241
<b>Net cash flows from financing activities</b>	<b>-728</b>	<b>2,126</b>
<b>Net increase/decrease in cash held</b>	<b>-645</b>	<b>-64</b>
<b>Net cash from operating activities and investments in non-financial assets</b>	<b>15,144</b>	<b>12,876</b>
Finance leases and similar arrangements(c)	-34	-4
Distributions paid(d)	-866	0
<b>Equals surplus(+)/deficit(-)</b>	<b>14,244</b>	<b>12,872</b>

(a) A positive number denotes a cash inflow; a negative sign denotes a cash outflow.

(b) GST flows are excluded from these categories.

(c) The acquisition of assets under finance leases decreases the surplus or increases the deficit. The disposal of assets previously held under finance leases increases the surplus or decreases the deficit.

(d) Distributions paid comprise public non-financial corporations dividends to non-general government shareholders.

**Table 11: Australian Government general government sector taxation revenue by source**

	Estimates	
	2006-07 \$m	2007-08 \$m
Taxes on income, profits and capital gains		
Income and capital gains levied on individuals	121,510	123,760
Income and capital gains levied on enterprises	67,020	74,770
Income taxes levied on non-residents	0	0
<b>Total taxes on income, profits and capital gains</b>	<b>188,530</b>	<b>198,530</b>
Taxes on employers' payroll and labour force	344	310
Taxes on property	15	15
Taxes on the provision of goods and services		
Sales/goods and services tax	41,900	44,330
Excises and levies	23,510	23,712
Taxes on international trade	5,600	5,960
Other	0	0
<b>Total taxes on the provision of goods and services</b>	<b>71,010</b>	<b>74,002</b>
Taxes on use of goods and performance of activities	1,287	1,303
<b>Total GFS taxation revenue</b>	<b>261,186</b>	<b>274,159</b>

**Table 12: Australian Government general government sector purchases of non-financial assets by function**

	Estimates		Projections		
	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m	2010-11 \$m
General public services	929	688	550	566	826
Defence	884	953	1,707	1,431	1,241
Public order and safety	245	383	337	147	355
Education	18	23	20	21	16
Health	111	136	94	81	60
Social security and welfare	489	523	306	325	175
Housing and community amenities	79	79	38	17	9
Recreation and culture	314	392	351	285	249
Fuel and energy	6	8	6	5	0
Agriculture, forestry and fishing	42	61	23	21	11
Mining, manufacturing and construction	64	58	40	37	36
Transport and communications	38	55	39	30	30
Other economic affairs	439	315	277	242	180
Other purposes	17	15	76	121	348
<b>General government purchases of non-financial assets</b>	<b>3,675</b>	<b>3,689</b>	<b>3,864</b>	<b>3,328</b>	<b>3,537</b>

## APPENDIX A: AUSTRALIAN LOAN COUNCIL ALLOCATION

Under Loan Council arrangements, every year the Australian Government and each State and Territory government nominate a Loan Council Allocation. A jurisdiction's Loan Council Allocation incorporates:

- the estimated non-financial public sector cash deficit/surplus (made up from the general government and public non-financial corporations sector balances);
- net cash flows from investments in financial assets for policy purposes; and
- memorandum items, which involve transactions that are not formally borrowings but nevertheless have many of the characteristics of borrowings.

Loan Council Allocation nominations are considered by the Loan Council, having regard to each jurisdiction's fiscal position and reasonable infrastructure requirements, as well as the macroeconomic implications of the aggregate figure.

As set out in Table 13, the Australian Government's 2007-08 Loan Council Allocation budget update is a \$17,905 million surplus. This compares with its Loan Council Allocation nomination of a \$17,163 million surplus endorsed by Loan Council on 30 March 2007.

**Table 13: Australian Government's Loan Council Allocation budget update for 2007-08**

	2007-08 Nomination \$m	2007-08 Budget Estimate \$m
General government sector cash deficit(+)/surplus(-)	-12,736	-13,628
Public non-financial corporations sector cash deficit(+)/surplus(-)	882	756
Non-financial public sector cash deficit(+)/surplus(-)	-11,854	-12,872
<i>less</i> Net cash flows from investments		
in financial assets for policy purposes(a)	4,878	4,652
<i>plus</i> Memorandum items(b)	-431	-382
<b>Loan Council Allocation</b>	<b>-17,163</b>	<b>-17,905</b>

(a) Such transactions involve the transfer or exchange of a financial asset and are not included within the cash deficit/surplus. However, the cash flow from investments in financial assets for policy purposes has implications for a government's call on financial markets.

(b) For the Australian Government, memorandum items include the change in net present value (NPV) of operating leases (with NPV greater than \$5 million) and over-funding of superannuation.





# STATEMENT 10: AUSTRALIAN ACCOUNTING STANDARDS FINANCIAL STATEMENTS

This statement presents financial statements that have been prepared on an accrual basis in accordance with applicable Australian Accounting Standards (AAS), being the Australian Equivalents to International Financial Reporting Standards (AEIFRS) and AAS 31 *Financial Reporting by Governments*, except where departures from the standard are identified in Note 1.

A reconciliation between the Australian Government's general government AAS and Government Finance Statistics (GFS) revenue, expenses and operating results is provided in Statement 8.

**Notes to the AAS Financial Statements..... 10-9**  
**Appendix A: Additional Agency Statistics ..... 10-17**



# STATEMENT 10: AUSTRALIAN ACCOUNTING STANDARDS FINANCIAL STATEMENTS

**Table 1: Australian Government general government sector income statement**

	Note	Estimates		Projections		
		2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m	2010-11 \$m
<b>Revenues</b>						
Taxation						
Income tax	3	188,530	198,530	210,750	223,100	233,270
Indirect tax	4	29,510	30,150	30,820	31,150	31,550
Other taxes		2,227	2,192	2,312	2,201	2,257
<b>Total taxation revenue</b>		<b>220,267</b>	<b>230,872</b>	<b>243,882</b>	<b>256,451</b>	<b>267,077</b>
Non-taxation						
Sales of goods and services		5,070	5,275	5,413	5,591	6,000
Interest and dividends	5	8,428	8,718	9,056	9,824	10,429
Other sources of non-tax revenue	6	3,586	3,499	3,620	3,748	4,562
<b>Total non-tax revenue</b>		<b>17,084</b>	<b>17,492</b>	<b>18,090</b>	<b>19,163</b>	<b>20,992</b>
<b>Total revenue</b>		<b>237,351</b>	<b>248,364</b>	<b>261,972</b>	<b>275,615</b>	<b>288,069</b>
<b>Gains</b>						
Net foreign exchange gains		0	0	0	0	0
Net gains from sale of assets		0	25	1,265	0	4
Other gains		14,941	1,442	3,140	3,913	4,178
<b>Total Gains</b>		<b>14,941</b>	<b>1,466</b>	<b>4,405</b>	<b>3,913</b>	<b>4,182</b>
<b>Income</b>		<b>252,293</b>	<b>249,831</b>	<b>266,377</b>	<b>279,528</b>	<b>292,251</b>
<b>Expenses</b>						
Goods and services						
Employees	7	25,105	26,823	27,358	28,219	29,813
Suppliers	8	19,614	22,857	22,661	22,530	22,923
Depreciation and amortisation	9	4,899	5,216	5,378	5,317	5,193
Net write-down and impairment of assets and fair value losses		3,812	4,023	4,007	4,163	4,322
Net foreign exchange losses		52	0	0	0	0
Net losses from sale of assets		1,040	0	0	0	0
Other goods and services expenses	10	7,947	8,348	8,827	9,612	10,306
<b>Total goods and services</b>		<b>62,469</b>	<b>67,267</b>	<b>68,232</b>	<b>69,842</b>	<b>72,557</b>
Subsidies benefits and grants						
Personal benefits		99,959	103,533	110,700	118,299	126,424
Subsidies		11,904	12,920	13,568	14,228	14,566
Grants	11	44,492	48,575	50,155	51,983	53,841
<b>Total subsidies benefits and grants</b>		<b>156,355</b>	<b>165,028</b>	<b>174,423</b>	<b>184,510</b>	<b>194,831</b>
<b>Borrowing costs</b>						
Interest		5,730	5,481	5,040	4,754	4,377
Other borrowing costs		31	34	30	30	30
<b>Total interest and other borrowing costs</b>		<b>5,761</b>	<b>5,515</b>	<b>5,070</b>	<b>4,784</b>	<b>4,407</b>
<b>Total expenses</b>		<b>224,584</b>	<b>237,810</b>	<b>247,724</b>	<b>259,136</b>	<b>271,796</b>
<b>Operating result</b>		<b>27,708</b>	<b>12,021</b>	<b>18,653</b>	<b>20,392</b>	<b>20,455</b>

**Table 2: Australian Government general government sector balance sheet**

	Note	Estimates		Projections		
		2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m	2010-11 \$m
<b>Assets</b>						
Financial assets						
Cash		2,008	2,348	2,778	2,297	2,121
Receivables	12	39,962	35,579	37,834	40,105	42,745
Investments		98,637	119,057	135,780	152,353	161,321
Equity accounted investments		616	616	616	616	616
Accrued revenue		2,908	3,044	3,207	3,331	3,206
Other financial assets		23	24	25	25	27
<b>Total financial assets</b>		<b>144,155</b>	<b>160,668</b>	<b>180,240</b>	<b>198,726</b>	<b>210,035</b>
Non-financial assets						
Land and buildings	13	21,374	22,059	23,303	24,007	24,753
Infrastructure		43,404	45,797	48,936	52,765	57,002
Heritage and cultural assets		8,074	8,109	8,134	8,164	8,188
Intangibles		2,148	2,442	2,479	2,414	2,323
Investment property		262	207	117	139	390
Biological assets		2	3	4	5	6
Assets held for sale		370	327	330	331	331
Inventories		5,532	5,643	5,830	6,045	6,456
Other non-financial assets		4,212	3,006	1,800	1,384	904
<b>Total non-financial assets</b>		<b>85,378</b>	<b>87,593</b>	<b>90,934</b>	<b>95,255</b>	<b>100,353</b>
<b>Total assets</b>		<b>229,533</b>	<b>248,261</b>	<b>271,173</b>	<b>293,981</b>	<b>310,387</b>
<b>Liabilities</b>						
Debt						
Government securities		57,275	59,269	59,355	58,723	50,715
Loans		4,743	4,829	4,672	4,565	4,746
Leases		344	319	780	745	705
Deposits		300	300	300	300	300
Overdrafts		0	0	0	0	0
Other debt		1,184	1,186	1,173	1,153	1,149
<b>Total debt</b>		<b>63,846</b>	<b>65,903</b>	<b>66,280</b>	<b>65,485</b>	<b>57,616</b>
Provisions and payables						
Employees	14	110,960	115,017	119,079	123,168	127,326
Suppliers		2,873	2,954	3,039	3,110	3,184
Personal benefits payable		8,108	8,430	8,633	8,712	9,022
Subsidies payable		1,383	1,323	1,243	1,168	1,195
Grants payable	15	9,562	9,989	10,414	10,776	11,273
Other provisions and payables		13,064	12,666	12,699	12,756	12,788
<b>Total provisions and payables</b>		<b>145,948</b>	<b>150,379</b>	<b>155,107</b>	<b>159,689</b>	<b>164,789</b>
Liabilities associated with assets held for sale						
		0	0	0	0	0
<b>Total liabilities</b>		<b>209,795</b>	<b>216,282</b>	<b>221,387</b>	<b>225,175</b>	<b>222,404</b>
<b>Net assets</b>		<b>19,738</b>	<b>31,979</b>	<b>49,787</b>	<b>68,807</b>	<b>87,983</b>
<b>Equity</b>						
Accumulated results		-37,173	-25,187	-6,365	14,407	35,354
Reserves		56,911	57,167	56,152	54,399	52,629
Capital		0	0	0	0	0
<b>Total equity</b>		<b>19,738</b>	<b>31,979</b>	<b>49,787</b>	<b>68,807</b>	<b>87,983</b>

**Table 3: Australian Government general government sector statement of changes in equity**

	Accumulated results		Asset revaluation reserve		Other reserves		Contributed equity/capital		Total equity	
	2006-07	2007-08	2006-07	2007-08	2006-07	2007-08	2006-07	2007-08	2006-07	2007-08
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>Opening balance</b>										
Balance carried forward from previous period	-37,466	-37,173	17,883	19,711	19,870	37,201	0	0	286	19,738
Adjustment for errors / entity adjustments	-34,057	-27	4	0	34,052	0	0	0	-1	-27
Adjustment for changes in accounting policy	4,880	0	0	0	0	0	0	0	4,880	0
<b>Adjusted opening balance</b>	<b>-66,643</b>	<b>-37,200</b>	<b>17,886</b>	<b>19,711</b>	<b>53,922</b>	<b>37,201</b>	<b>0</b>	<b>0</b>	<b>5,164</b>	<b>19,711</b>
<b>Income and expense</b>										
Revenues and expenses recognised directly in equity	na	na	na	na	0	0	na	na	0	0
Currency translation gain (loss)	na	na	1,364	272	129	0	na	na	1,493	272
Financial asset revaluations	na	na	462	48	na	na	na	na	462	48
Non-financial asset revaluations	na	na								
Total revenues and expenses recognised directly in equity	0	0	1,825	320	129	0	0	0	1,954	320
Net operating result	<b>27,708</b>	<b>12,021</b>	<b>na</b>	<b>na</b>	<b>na</b>	<b>na</b>	<b>na</b>	<b>na</b>	<b>27,708</b>	<b>12,021</b>
<b>Total income and expenses</b>										
Transfers between reserves	-8	23	-8	-16	17	-7	0	0	0	0
Dividends	0	0	0	0	0	0	0	0	0	0
Other movements	1,770	-31	7	3	-16,867	-44	0	0	-15,089	-72
<b>Closing balance</b>	<b>-37,173</b>	<b>-25,187</b>	<b>19,711</b>	<b>20,017</b>	<b>37,201</b>	<b>37,149</b>	<b>0</b>	<b>0</b>	<b>19,738</b>	<b>31,979</b>

**Table 3: Australian Government general government sector statement of changes in equity (continued)**

	Accumulated results		Asset revaluation reserve		Other reserves		Contributed equity/capital		Total equity	
	2008-09	2009-10	2008-09	2009-10	2008-09	2009-10	2008-09	2009-10	2008-09	2009-10
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>Opening balance</b>										
Balance carried forward from previous period	-25,187	-6,365	20,017	20,097	37,149	36,055	0	0	31,979	49,787
Adjustment for errors / entity adjustments	-17	-20	0	0	0	0	0	0	-17	-20
Adjustment for changes in accounting policy	0	0	0	0	0	0	0	0	0	0
<b>Adjusted opening balance</b>	<b>-25,205</b>	<b>-6,386</b>	<b>20,017</b>	<b>20,097</b>	<b>37,150</b>	<b>36,055</b>	<b>0</b>	<b>0</b>	<b>31,962</b>	<b>49,767</b>
<b>Income and expense</b>										
Revenues and expenses recognised directly in equity	na	na	na	na	0	0	na	na	0	0
Currency translation gain (loss)	na	na	35	30	0	0	na	na	35	30
Financial asset revaluations	na	na	38	44	na	na	na	na	38	44
Non-financial asset revaluations										
Total revenues and expenses recognised directly in equity	0	0	73	74	0	0	0	0	73	74
Net operating result	<b>18,653</b>	<b>20,392</b>	<b>na</b>	<b>na</b>	<b>na</b>	<b>na</b>	<b>na</b>	<b>na</b>	<b>18,653</b>	<b>20,392</b>
<b>Total income and expenses</b>										
Transfers between reserves	-8	-7	2	1	6	6	0	0	0	0
Dividends	0	0	0	0	0	0	0	0	0	0
Other movements	194	408	5	6	-1,101	-1,840	0	0	-902	-1,426
<b>Closing balance</b>	<b>-6,365</b>	<b>14,407</b>	<b>20,097</b>	<b>20,178</b>	<b>36,055</b>	<b>34,221</b>	<b>0</b>	<b>0</b>	<b>49,787</b>	<b>68,807</b>

**Table 3: Australian Government general government sector statement of changes in equity (continued)**

	Accumulated results		Asset revaluation reserve		Other reserves		Contributed equity/capital		Total equity	
	2010-11	\$m	2010-11	\$m	2010-11	\$m	2010-11	\$m	2010-11	\$m
<b>Opening balance</b>										
Balance carried forward from previous period	14,290		20,178		34,221		0		68,689	
Adjustment for errors / entity adjustments	-76		-1		1		0		-76	
Adjustment for changes in accounting policy	0		0		0		0		0	
<b>Adjusted opening balance</b>	<b>14,214</b>		<b>20,177</b>		<b>34,222</b>		<b>0</b>		<b>68,613</b>	
<b>Income and expense</b>										
Revenues and expenses recognised directly in equity	na		na		0		na		0	
Currency translation gain (loss)	na		30		0		na		30	
Financial asset revaluations	na		33		na		na		33	
Non-financial asset revaluations	na		na		na		na		na	
Total revenues and expenses recognised directly in equity	0		63		0		0		63	
Net operating result	<b>20,455</b>		<b>na</b>		<b>na</b>		<b>na</b>		<b>20,455</b>	
<b>Total income and expenses</b>										
Transfers between reserves	-5		0		5		0		0	
Dividends	0		0		0		0		0	
Other movements	689		6		-1,844		0		-1,148	
<b>Closing balance</b>	<b>35,354</b>		<b>20,246</b>		<b>32,383</b>		<b>0</b>		<b>87,983</b>	

**Table 4: Australian Government general government sector cash flow statement**

	Note	Estimates		Projections		
		2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m	2010-11 \$m
<b>Operating activities</b>						
Cash received						
Taxation	16	216,321	226,778	239,487	251,998	262,770
Sales of goods and services		5,221	5,437	5,596	5,749	6,160
Interest		5,528	5,676	5,072	5,685	6,194
Dividends		3,120	2,926	3,837	3,949	4,085
GST input credit receipts		3,027	2,988	2,996	3,058	3,121
Other		3,011	3,240	3,338	3,432	4,208
<b>Total operating cash received</b>		<b>236,227</b>	<b>247,045</b>	<b>260,326</b>	<b>273,872</b>	<b>286,538</b>
Cash used						
Payments to employees		21,285	22,738	23,267	24,100	25,625
Payments to suppliers		23,192	26,080	25,897	25,787	26,486
Subsidies paid		11,486	12,346	13,014	13,741	14,076
Personal benefits		98,732	102,934	110,424	118,169	126,110
Grant payments		44,397	47,572	48,708	51,304	53,427
Interest and other financing costs		5,587	5,595	5,197	4,720	5,158
GST payments to taxation authority		79	81	82	85	87
Other		7,441	8,282	8,789	9,596	10,304
<b>Total operating cash used</b>		<b>212,200</b>	<b>225,628</b>	<b>235,379</b>	<b>247,500</b>	<b>261,273</b>
<b>Net cash from operating activities</b>		<b>24,027</b>	<b>21,416</b>	<b>24,947</b>	<b>26,372</b>	<b>25,265</b>
<b>Investing activities</b>						
Cash received						
Proceeds from asset sales program		8,801	6,615	2,015	0	0
Proceeds from sales of property, plant and equipment and intangibles		184	250	222	114	104
Other net investing cash received		289	288	313	331	346
<b>Total investing cash received</b>		<b>9,274</b>	<b>7,154</b>	<b>2,550</b>	<b>445</b>	<b>450</b>
Cash used						
Purchase of property, plant and equipment and intangibles		8,085	8,318	9,342	9,965	9,942
Net loans, advances and HECS		1,152	1,964	2,033	1,923	2,150
Other net investing cash paid		22,982	20,234	15,742	14,606	6,718
<b>Total investing cash used</b>		<b>32,218</b>	<b>30,516</b>	<b>27,116</b>	<b>26,493</b>	<b>18,810</b>
<b>Net cash from investing activities</b>		<b>-22,944</b>	<b>-23,362</b>	<b>-24,566</b>	<b>-26,049</b>	<b>-18,360</b>
<b>Financing activities</b>						
Cash received						
Net cash received from currency issues		0	0	0	0	0
Other		339	0	0	0	0
<b>Total financing cash received</b>		<b>339</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Cash used						
Net repayments of borrowings		1,312	-2,336	-154	705	6,987
Other		48	50	106	99	94
<b>Total financing cash used</b>		<b>1,359</b>	<b>-2,286</b>	<b>-49</b>	<b>804</b>	<b>7,081</b>
<b>Net cash from financing activities</b>		<b>-1,020</b>	<b>2,286</b>	<b>49</b>	<b>-804</b>	<b>-7,081</b>
<b>Net increase/decrease in cash held</b>	2	<b>63</b>	<b>340</b>	<b>430</b>	<b>-481</b>	<b>-176</b>



## NOTES TO THE AAS FINANCIAL STATEMENTS

### Note 1: External reporting standards and accounting policies

The *Charter of Budget Honesty Act 1998* requires that the budget be based on external reporting standards and that departures from applicable external reporting standards be identified.

The financial statements included in this statement have been prepared on an accrual basis in accordance with applicable Australian Accounting Standards (AAS), being the Australian Equivalents to International Financial Reporting Standards (AEIFRS) and AAS 31 *Financial Reporting by Governments* (AAS 31).

AAS requires governments to prepare accrual based general purpose financial reports. This means that assets, liabilities, income and expenses are recorded in financial statements when transactions have an economic impact on the government, rather than when the cash flow associated with these transactions occurs. Consistent with AAS, an income statement, a balance sheet, a statement of changes in equity, and a cash flow statement have been prepared for the budget year and the three forward years.

The accounting policies in this statement are generally consistent with the accounting policies in AAS. While the scope for financial reporting recommended in AAS 31 is the whole of government (that is, the Australian Government public sector), in accordance with the *Charter of Budget Honesty Act 1998*, the presentation covers the general government sector only. This statement includes notes showing disaggregated information.

AAS would suggest the gross amount of goods and services tax (GST) be included in the Australian Government's financial statements. However, under the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations*, GST is collected by the Australian Taxation Office as an agent for the States and Territories (the States), and appropriated to the States. Therefore, GST cash flows and any accrued GST revenues and associated payments to the States are not recorded in the financial statements.

The new AEIFRS standard relating to superannuation is AASB 119 *Employee Benefits*. The standard requires the government bond rate at balance date to be referenced when valuing the superannuation liability, with the relevant bond yield to match the term of the liability. However, the longest maturing government bond is only 10 years, significantly shorter than the term of the superannuation liability. Therefore, in applying this standard, a longer term rate of 6 per cent as determined by actuaries is adopted to discount the liability for budget reporting. Guidance has been sought from the Australian Accounting Standards Board to clarify the differing interpretations in applying AASB 119 for outcomes.

**Note 2: Reconciliation of cash**

	Estimates		Projections		
	2006-07	2007-08	2008-09	2009-10	2010-11
	\$m	\$m	\$m	\$m	\$m
<b>Operating result (revenues less expenses)</b>	<b>27,708</b>	<b>12,021</b>	<b>18,653</b>	<b>20,392</b>	<b>20,455</b>
less <b>Revenues not providing cash</b>					
Foreign exchange gains	0	0	0	0	0
Gains from asset sales programme	0	0	1,252	0	0
Gains from sale of assets	6	57	14	0	5
Other	15,310	1,812	3,616	4,421	4,715
<b>Total revenues not providing cash</b>	<b>15,316</b>	<b>1,869</b>	<b>4,882</b>	<b>4,422</b>	<b>4,720</b>
plus <b>Expenses not requiring cash</b>					
Increase/(decrease) in employee entitlements	3,856	4,060	4,062	4,089	4,159
Depreciation/amortisation expense	4,899	5,216	5,378	5,317	5,193
Provision for bad and doubtful debts	450	469	531	571	627
Provision for diminution in value of assets	291	284	154	151	144
Losses from asset sales programme	1,040	27	0	0	0
Losses from sale of assets	0	0	0	0	0
Foreign exchange losses	52	0	0	0	0
Other	7	-26	-50	-11	-60
<b>Total expenses not requiring cash</b>	<b>10,596</b>	<b>10,030</b>	<b>10,076</b>	<b>10,117</b>	<b>10,063</b>
plus <b>Cash provided by working capital items</b>					
Decrease in inventories	0	0	0	0	0
Decrease in receivables	347	18	0	0	0
Decrease in other financial assets	0	0	0	0	163
Decrease in other non-financial assets	0	873	1,148	435	0
Increase in benefits subsidies and grants payable	1,049	600	524	364	767
Increase in suppliers' liabilities	0	80	85	71	74
Increase in other provisions and payables	469	0	10	192	0
<b>Total cash provided by working capital items</b>	<b>1,865</b>	<b>1,572</b>	<b>1,768</b>	<b>1,061</b>	<b>1,005</b>
less <b>Cash used by working capital items</b>					
Increase in inventories	214	196	243	228	424
Increase in receivables	0	0	229	366	474
Increase in other financial assets	283	79	116	107	0
Increase in other non-financial assets	42	0	0	0	1
Decrease in benefits subsidies and grants payable	260	59	80	76	0
Decrease in other provisions and payables	0	2	0	0	638
Decrease in suppliers' liabilities	28	0	0	0	0
<b>Total cash used by working capital items</b>	<b>826</b>	<b>337</b>	<b>667</b>	<b>776</b>	<b>1,537</b>
equals <i>Net cash from/(to) operating activities</i>	24,027	21,416	24,947	26,372	25,265
plus <i>Net cash from/(to) investing activities</i>	-22,944	-23,362	-24,566	-26,049	-18,360
<b>Net cash from operating activities and investment</b>	<b>1,083</b>	<b>-1,945</b>	<b>381</b>	<b>323</b>	<b>6,905</b>
plus <i>Net cash from/(to) financing activities</i>	-1,020	2,286	49	-804	-7,081
<b>equals Net (decrease)/increase in cash</b>	<b>63</b>	<b>340</b>	<b>430</b>	<b>-481</b>	<b>-176</b>

**Note 2(a): Consolidated Revenue Fund**

The estimated and projected cash balances reflected in the statement of financial position for the Australian Government general government sector (Table 2) include the reported cash balances controlled and administered by Australian Government agencies subject to the *Financial Management and Accountability Act 1997* and the reported cash balances controlled and administered by entities, subject to the *Commonwealth Authorities and Companies Act 1997* (CAC Act), that implement public policy through the provision of primarily non-market services.

Revenues or monies raised by the Executive Government automatically form part of the Consolidated Revenue Fund by force of section 81 of the Australian Constitution. For practical purposes, total Australian Government general government sector cash, less cash controlled and administered by CAC Act entities, plus special public monies represents the Consolidated Revenue Fund referred to in section 81 of the Australian Constitution. On this basis, the balance of the Consolidated Revenue Fund is shown below.

	Estimates		Projections		
	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m	2010-11 \$m
<b>Total general government sector cash (Statement 10)</b>	2,008	2,348	2,778	2,297	2,121
<i>less</i> CAC Agency cash balances	978	1,029	1,063	1,134	1,146
<i>plus</i> Special public monies	105	107	110	113	115
<b>Balance of Consolidated Revenue Fund at 30 June</b>	<b>1,135</b>	<b>1,426</b>	<b>1,825</b>	<b>1,276</b>	<b>1,090</b>

Further information on the Consolidated Revenue Fund is included in Budget Paper No. 4, *Agency Resourcing 2007-08*.

**Note 3: Income taxation revenue**

	Estimates		Projections		
	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m	2010-11 \$m
Individuals and other withholding taxes					
Gross income tax withholding	107,710	111,360	118,040	127,020	136,590
Gross other individuals	26,820	27,560	28,860	30,200	31,050
<i>less</i> : Refunds	17,140	19,360	21,190	22,530	23,980
Total individuals and other withholding taxation	117,390	119,560	125,710	134,690	143,660
Fringe benefits tax	3,850	4,110	4,280	4,510	4,730
Superannuation funds					
Contributions and earnings	7,190	8,210	9,720	10,320	10,820
Surcharge	270	90	10	10	20
Total superannuation taxation	7,460	8,300	9,730	10,330	10,840
Company tax	58,270	64,580	68,580	70,510	71,830
Petroleum resource rent tax	1,560	1,980	2,450	3,060	2,210
<b>Total income taxation revenue</b>	<b>188,530</b>	<b>198,530</b>	<b>210,750</b>	<b>223,100</b>	<b>233,270</b>

**Note 4: Indirect taxation revenue**

	Estimates		Projections		
	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m	2010-11 \$m
Excise duty					
Petroleum and other fuel products	14,150	14,420	14,700	15,110	15,620
Crude oil	530	310	160	150	210
Other excise	8,050	8,220	8,370	8,530	8,670
Total excise duty revenue	22,730	22,950	23,230	23,790	24,500
Customs duty revenue					
Textiles, clothing and footwear	920	1,000	1,060	830	590
Passenger motor vehicles	1,250	1,340	1,400	1,100	730
Excise-like goods	2,160	2,270	2,390	2,530	2,670
Other imports	1,500	1,580	1,680	1,790	1,910
less: Refunds and drawbacks	230	230	240	240	240
Total customs duty revenue	5,600	5,960	6,290	6,010	5,660
Other indirect tax revenue	1,180	1,240	1,300	1,350	1,390
GST	40,720	43,090	45,500	47,810	50,300
less transfers to States in relation to GST revenue	40,720	43,090	45,500	47,810	50,300
GST revenue	0	0	0	0	0
Mirror taxes	353	371	391	414	438
less transfers to States in relation to mirror tax revenue	353	371	391	414	438
Mirror tax revenue	0	0	0	0	0
<b>Indirect tax revenue</b>	<b>29,510</b>	<b>30,150</b>	<b>30,820</b>	<b>31,150</b>	<b>31,550</b>

**Note 5: Interest and dividend revenue**

	Estimates		Projections		
	2006-07	2007-08	2008-09	2009-10	2010-11
	\$m	\$m	\$m	\$m	\$m
<b>Interest</b>					
Interest from other governments					
State and Territory debt	15	16	15	14	13
Housing agreements	192	188	183	179	174
<b>Total interest from other governments</b>	<b>207</b>	<b>204</b>	<b>198</b>	<b>193</b>	<b>187</b>
Interest from other sources					
Swap interest	1,813	1,604	1,246	1,001	757
Advances	59	62	64	67	69
Deposits	0	0	0	0	0
Bills receivable	10	6	5	6	6
Bank deposits	249	253	265	281	291
Indexation of HECS receivable and other student loans	357	372	476	509	538
Other	2,959	3,251	2,970	3,824	4,547
<b>Total interest from other sources</b>	<b>5,447</b>	<b>5,547</b>	<b>5,026</b>	<b>5,687</b>	<b>6,207</b>
<b>Total interest</b>	<b>5,654</b>	<b>5,751</b>	<b>5,224</b>	<b>5,880</b>	<b>6,394</b>
<b>Dividends</b>					
Dividends from controlled entities	2,171	1,804	2,185	2,312	2,324
Other dividends	604	1,163	1,647	1,632	1,711
<b>Total dividends</b>	<b>2,774</b>	<b>2,966</b>	<b>3,832</b>	<b>3,944</b>	<b>4,035</b>
<b>Total interest and dividend revenue</b>	<b>8,428</b>	<b>8,718</b>	<b>9,056</b>	<b>9,824</b>	<b>10,429</b>

**Note 6: Other sources of non taxation revenue**

	Estimates		Projections		
	2006-07	2007-08	2008-09	2009-10	2010-11
	\$m	\$m	\$m	\$m	\$m
Industry contributions	224	210	198	198	199
International Monetary Fund related revenue	10	6	6	6	6
Royalties	1,180	1,156	1,236	1,290	1,245
Seigniorage	101	106	103	103	103
Other	2,071	2,021	2,078	2,151	3,010
<b>Total other sources of non-taxation revenue</b>	<b>3,586</b>	<b>3,499</b>	<b>3,620</b>	<b>3,748</b>	<b>4,562</b>

**Note 7: Employee expenses**

	Estimates		Projections		
	2006-07	2007-08	2008-09	2009-10	2010-11
	\$m	\$m	\$m	\$m	\$m
Salaries and wages(a)	13,854	14,701	14,802	15,209	15,650
Leave and other entitlements	1,442	1,492	1,524	1,570	1,663
Separations and redundancies	57	47	48	48	45
Workers compensation premiums	2	5	14	7	28
Other (including superannuation)	9,750	10,577	10,971	11,385	12,426
<b>Total employee expenses</b>	<b>25,105</b>	<b>26,823</b>	<b>27,358</b>	<b>28,219</b>	<b>29,813</b>

(a) Salaries and wages do not include superannuation.

**Note 8: Suppliers expenses**

	Estimates		Projections		
	2006-07	2007-08	2008-09	2009-10	2010-11
	\$m	\$m	\$m	\$m	\$m
Supply of goods and services	17,356	20,433	20,173	19,991	20,529
Operating lease rental expenses	1,795	1,832	1,853	1,881	1,860
Other	463	592	635	658	534
<b>Total suppliers expenses</b>	<b>19,614</b>	<b>22,857</b>	<b>22,661</b>	<b>22,530</b>	<b>22,923</b>

**Note 9: Depreciation and amortisation expenses**

	Estimates		Projections		
	2006-07	2007-08	2008-09	2009-10	2010-11
	\$m	\$m	\$m	\$m	\$m
<b>Depreciation</b>					
Specialist military equipment	2,683	2,738	2,740	2,597	2,476
Buildings	685	733	779	787	829
Other infrastructure, plant and equipment	1,091	1,209	1,257	1,294	1,290
Heritage and cultural assets	45	48	49	49	48
Investment property	0	0	0	0	0
<b>Total depreciation</b>	<b>4,504</b>	<b>4,728</b>	<b>4,826</b>	<b>4,727</b>	<b>4,642</b>
<b>Total amortisation</b>	<b>395</b>	<b>488</b>	<b>553</b>	<b>590</b>	<b>551</b>
<b>Total depreciation and amortisation expenses</b>	<b>4,899</b>	<b>5,216</b>	<b>5,378</b>	<b>5,317</b>	<b>5,193</b>

**Note 10: Other goods and services expenses**

	Estimates		Projections		
	2006-07	2007-08	2008-09	2009-10	2010-11
	\$m	\$m	\$m	\$m	\$m
Health care payments	4,458	4,674	4,787	4,912	4,957
Development Cooperation Program	1,470	1,867	2,026	2,163	2,298
Other	2,020	1,807	2,014	2,538	3,051
<b>Total other goods and services expenses</b>	<b>7,947</b>	<b>8,348</b>	<b>8,827</b>	<b>9,612</b>	<b>10,306</b>

**Note 11: Grants expenses**

	Estimates		Projections		
	2006-07	2007-08	2008-09	2009-10	2010-11
	\$m	\$m	\$m	\$m	\$m
State and Territory governments	27,876	30,215	31,206	33,327	34,449
Non-profit organisations	1,616	1,772	1,461	1,444	1,459
Overseas	601	685	609	424	507
Private sector	1,698	1,948	1,665	1,534	1,325
Local governments	374	557	593	46	45
Multi-jurisdictional sector	5,935	6,386	6,809	6,960	7,104
Other	6,391	7,012	7,812	8,247	8,952
<b>Total grant expenses</b>	<b>44,492</b>	<b>48,575</b>	<b>50,155</b>	<b>51,983</b>	<b>53,841</b>

**Note 12: Receivables**

	Estimates		Projections		
	2006-07	2007-08	2008-09	2009-10	2010-11
	\$m	\$m	\$m	\$m	\$m
Taxes receivable	10,566	10,904	11,498	12,135	12,876
Advances and loans	19,126	20,780	22,507	24,097	25,935
Other receivables	10,271	3,895	3,829	3,873	3,934
<b>Total receivables</b>	<b>39,962</b>	<b>35,579</b>	<b>37,834</b>	<b>40,105</b>	<b>42,745</b>

**Note 13: Total non-financial assets**

	Estimates		Projections		
	2006-07	2007-08	2008-09	2009-10	2010-11
	\$m	\$m	\$m	\$m	\$m
Land and buildings					
Land	6,181	6,276	6,365	6,355	6,402
Buildings	15,193	15,782	16,938	17,652	18,351
<b>Total land and buildings</b>	<b>21,374</b>	<b>22,059</b>	<b>23,303</b>	<b>24,007</b>	<b>24,753</b>
Infrastructure					
Specialist military equipment	33,922	35,899	39,055	43,017	47,178
Other	9,481	9,898	9,881	9,748	9,824
<b>Total infrastructure</b>	<b>43,404</b>	<b>45,797</b>	<b>48,936</b>	<b>52,765</b>	<b>57,002</b>
Intangibles					
Computer software	2,016	2,204	2,237	2,176	2,105
Other	132	238	242	238	218
<b>Total intangibles</b>	<b>2,148</b>	<b>2,442</b>	<b>2,479</b>	<b>2,414</b>	<b>2,323</b>
<b>Total heritage and cultural assets</b>	<b>8,074</b>	<b>8,109</b>	<b>8,134</b>	<b>8,164</b>	<b>8,188</b>
<b>Total investment properties</b>	<b>262</b>	<b>207</b>	<b>117</b>	<b>139</b>	<b>390</b>
<b>Total biological assets</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>
<b>Total assets held for sale</b>	<b>370</b>	<b>327</b>	<b>330</b>	<b>331</b>	<b>331</b>
<b>Total inventories</b>	<b>5,532</b>	<b>5,643</b>	<b>5,830</b>	<b>6,045</b>	<b>6,456</b>
Other non-financial assets					
Prepayments	3,607	2,623	1,322	754	617
Other	605	383	478	630	287
<b>Total other non-financial assets</b>	<b>4,212</b>	<b>3,006</b>	<b>1,800</b>	<b>1,384</b>	<b>904</b>
<b>Total non-financial assets</b>	<b>85,378</b>	<b>87,593</b>	<b>90,934</b>	<b>95,255</b>	<b>100,353</b>

**Note 14: Employee and superannuation liabilities**

	Estimates		Projections		
	2006-07	2007-08	2008-09	2009-10	2010-11
	\$m	\$m	\$m	\$m	\$m
Superannuation	102,166	105,951	109,639	113,358	117,095
Leave and other entitlements	4,411	4,496	4,673	4,854	5,118
Accrued salaries and wages	209	255	299	359	384
Workers compensation claims	1,483	1,526	1,565	1,599	1,634
Separations and redundancies	43	32	32	33	33
Workers compensation premiums	1,618	1,690	1,767	1,851	1,934
Other	1,029	1,067	1,104	1,115	1,128
<b>Total employee and superannuation liabilities</b>	<b>110,960</b>	<b>115,017</b>	<b>119,079</b>	<b>123,168</b>	<b>127,326</b>

**Note 15: Grants payable**

	Estimates		Projections		
	2006-07	2007-08	2008-09	2009-10	2010-11
	\$m	\$m	\$m	\$m	\$m
State and Territory governments	4,581	4,899	5,097	5,398	5,730
Non-profit organisations	111	89	90	90	90
Private sector	433	205	205	205	205
Overseas	309	328	386	306	339
Local governments	11	11	11	11	11
Other	4,117	4,456	4,625	4,766	4,899
<b>Total grants payable</b>	<b>9,562</b>	<b>9,989</b>	<b>10,414</b>	<b>10,776</b>	<b>11,273</b>

**Note 16: Taxation receipts**

	Estimates		Projections		
	2006-07	2007-08	2008-09	2009-10	2010-11
	\$m	\$m	\$m	\$m	\$m
Total taxation receipts	256,254	268,999	284,079	298,862	312,057
less payments to States and Territories in relation to GST revenue	39,580	41,850	44,200	46,450	48,850
less payments to States and Territories in relation to mirror tax revenue	353	371	391	414	438
<b>Taxation receipts</b>	<b>216,321</b>	<b>226,778</b>	<b>239,487</b>	<b>251,998</b>	<b>262,770</b>



## APPENDIX A: ADDITIONAL AGENCY STATISTICS

**Table A1: General government expenses by agency**

	Estimates		Projections		
	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m	2010-11 \$m
<b>Agriculture, Fisheries and Forestry</b>					
Department of Agriculture, Fisheries and Forestry	2,789	2,576	1,698	1,354	1,317
Grains Research and Development Corporation	121	110	110	123	138
Dairy Structural Adjustment Fund	35	24	15	0	0
<b>Total</b>	<b>2,944</b>	<b>2,710</b>	<b>1,824</b>	<b>1,476</b>	<b>1,456</b>
<b>Attorney-General's</b>					
Attorney-General's Department	783	884	883	866	863
Australian Customs Service	1,124	1,200	1,203	1,201	1,207
Australian Federal Police	1,076	1,171	1,181	1,236	1,225
Family Court of Australia	139	141	140	140	141
High Court of Australia	14	14	14	14	15
<b>Total</b>	<b>3,136</b>	<b>3,410</b>	<b>3,421</b>	<b>3,457</b>	<b>3,450</b>
<b>Communications, Information Technology and the Arts</b>					
Department of Communications, Information Technology and the Arts					
Department of Communications, Information Technology and the Arts	14,306	1,001	798	454	389
Australian Broadcasting Corporation	1,062	1,087	1,109	1,126	1,052
Australian Communications and Media Authority	264	272	255	251	250
Australian Sports Commission	215	226	230	219	197
National Archives of Australia	71	71	71	86	79
National Gallery of Australia	48	50	50	52	54
National Library of Australia	70	69	69	70	70
National Museum of Australia	45	47	46	46	47
Special Broadcasting Service Corporation	241	248	253	257	263
<b>Total</b>	<b>16,321</b>	<b>3,070</b>	<b>2,881</b>	<b>2,561</b>	<b>2,399</b>
<b>Defence</b>					
Department of Defence	21,047	22,890	22,835	23,180	23,739
Defence Materiel Organisation	8,378	9,615	10,868	11,431	11,358
Defence Housing Authority	735	794	846	931	829
Department of Veterans' Affairs	10,894	11,025	11,184	11,258	11,209
Australian War Memorial	43	45	46	47	47
<b>Total</b>	<b>41,097</b>	<b>44,369</b>	<b>45,779</b>	<b>46,846</b>	<b>47,182</b>
<b>Education, Science and Training</b>					
Department of Education, Science and Training	20,207	21,767	22,557	23,334	24,184
Australian Research Council	582	593	608	621	631
Australian Nuclear Science and Technology Organisation	203	215	228	221	223
Commonwealth Scientific and Industrial Research Organisation	973	1,031	1,069	1,118	1,175
<b>Total</b>	<b>21,965</b>	<b>23,607</b>	<b>24,462</b>	<b>25,294</b>	<b>26,214</b>

**Table A1: General government expenses by agency (continued)**

	Estimates		Projections		
	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m	2010-11 \$m
<b>Employment and Workplace Relations</b>					
Department of Employment and Workplace Relations	25,241	26,199	26,711	27,635	28,056
Indigenous Business Australia	110	111	108	111	111
Comcare	324	357	350	347	359
<b>Total</b>	<b>25,676</b>	<b>26,667</b>	<b>27,168</b>	<b>28,093</b>	<b>28,527</b>
<b>Environment and Water Resources</b>					
Department of the Environment and Water Resources	1,042	1,536	1,548	2,138	2,469
Bureau of Meteorology	231	265	284	293	300
National Water Commission	639	372	421	334	11
<b>Total</b>	<b>1,912</b>	<b>2,173</b>	<b>2,252</b>	<b>2,765</b>	<b>2,780</b>
<b>Families, Community Services and Indigenous Affairs</b>					
Department of Families, Community Services and Indigenous Affairs	48,202	50,442	53,549	56,104	59,473
<b>Total</b>	<b>48,202</b>	<b>50,442</b>	<b>53,549</b>	<b>56,104</b>	<b>59,473</b>
<b>Finance and Administration</b>					
Department of Finance and Administration	8,617	6,208	6,297	6,409	6,576
Australian Electoral Commission	123	243	115	121	251
Future Fund Management Agency	12	52	206	228	250
<b>Total</b>	<b>8,752</b>	<b>6,503</b>	<b>6,618</b>	<b>6,758</b>	<b>7,078</b>
<b>Human Services</b>					
Department of Human Services	1,710	2,008	2,069	2,019	2,004
Centrelink	2,544	2,653	2,480	2,481	2,538
Medicare Australia	623	652	691	713	762
<b>Total</b>	<b>4,877</b>	<b>5,314</b>	<b>5,240</b>	<b>5,213</b>	<b>5,304</b>
<b>Foreign Affairs and Trade</b>					
Department of Foreign Affairs and Trade	1,041	1,085	1,080	1,107	1,102
AusAID	1,967	2,430	2,514	2,460	2,678
Australian Trade Commission	362	363	354	356	358
<b>Total</b>	<b>3,370</b>	<b>3,878</b>	<b>3,948</b>	<b>3,923</b>	<b>4,137</b>
<b>Health and Ageing</b>					
Department of Health and Ageing	41,715	45,109	46,967	49,046	50,841
National Blood Authority	634	683	723	765	810
National Health and Medical Research Council	498	578	665	751	758
<b>Total</b>	<b>42,847</b>	<b>46,369</b>	<b>48,355</b>	<b>50,562</b>	<b>52,409</b>
<b>Immigration and Citizenship</b>					
Department of Immigration and Citizenship	1,561	1,617	1,566	1,581	1,546
<b>Total</b>	<b>1,561</b>	<b>1,617</b>	<b>1,566</b>	<b>1,581</b>	<b>1,546</b>
<b>Industry, Tourism and Resources</b>					
Department of Industry, Tourism and Resources	2,244	2,417	2,318	2,210	2,036
Tourism Australia	161	162	164	165	166
<b>Total</b>	<b>2,405</b>	<b>2,579</b>	<b>2,482</b>	<b>2,375</b>	<b>2,202</b>
<b>Parliament</b>					
Department of Parliamentary Services	160	166	168	170	172
<b>Total</b>	<b>160</b>	<b>166</b>	<b>168</b>	<b>170</b>	<b>172</b>

**Table A1: General government expenses by agency (continued)**

	Estimates		Projections		
	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m	2010-11 \$m
<b>Prime Minister and Cabinet</b>					
Department of Prime Minister and Cabinet	178	155	84	84	85
<b>Total</b>	<b>178</b>	<b>155</b>	<b>84</b>	<b>84</b>	<b>85</b>
<b>Transport and Regional Services</b>					
Department of Transport and Regional Services	4,628	5,691	6,155	6,478	6,347
Civil Aviation Safety Authority	114	139	139	142	133
National Capital Authority	30	34	35	36	37
<b>Total</b>	<b>4,772</b>	<b>5,863</b>	<b>6,329</b>	<b>6,656</b>	<b>6,517</b>
<b>Treasury</b>					
Department of the Treasury(a)	393	366	358	358	366
Australian Bureau of Statistics	437	320	299	314	370
Australian Securities and Investment Commission	333	358	371	374	353
Australian Taxation Office(a)	15,182	15,446	15,784	16,160	16,703
Australian Office of Financial Management	5,409	5,173	4,695	4,424	4,048
<b>Total</b>	<b>21,755</b>	<b>21,664</b>	<b>21,507</b>	<b>21,631</b>	<b>21,839</b>
<b>Small agencies</b>	<b>3,616</b>	<b>3,861</b>	<b>3,916</b>	<b>3,977</b>	<b>3,989</b>
<b>Whole of government and inter-agency amounts(b)</b>	<b>-30,962</b>	<b>-16,606</b>	<b>-13,826</b>	<b>-10,391</b>	<b>-4,962</b>
<b>Total expenses</b>	<b>224,584</b>	<b>237,810</b>	<b>247,724</b>	<b>259,136</b>	<b>271,796</b>

(a) Excludes GST expenses consistent with the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations*, whereby GST is collected by the Australian Taxation Office and appropriated to the States and Territories by the Department of the Treasury as agent for the States and Territories.

(b) Estimates of inter-agency transactions are included in the whole of government and inter-agency amounts. The entry for each portfolio does not include eliminations for inter-agency transactions within that portfolio.

**Table A2: Departmental expenses by agency**

	Estimates		Projections		
	2006-07	2007-08	2008-09	2009-10	2010-11
	\$m	\$m	\$m	\$m	\$m
<b>Agriculture, Fisheries and Forestry</b>					
Department of Agriculture, Fisheries and Forestry	643	606	598	552	553
Grains Research and Development Corporation	121	110	110	123	138
Dairy Structural Adjustment Fund	0	0	0	0	0
<b>Total</b>	<b>764</b>	<b>716</b>	<b>709</b>	<b>675</b>	<b>692</b>
<b>Attorney-General's</b>					
Attorney-General's Department	217	226	240	244	244
Australian Customs Service	1,121	1,197	1,201	1,198	1,203
Australian Federal Police	1,076	1,171	1,181	1,236	1,225
Family Court of Australia	139	141	140	140	141
High Court of Australia	14	14	14	14	15
<b>Total</b>	<b>2,566</b>	<b>2,749</b>	<b>2,776</b>	<b>2,833</b>	<b>2,828</b>
<b>Communications, Information Technology and the Arts</b>					
Department of Communications, Information Technology and the Arts					
Australian Broadcasting Corporation	971	996	1,018	1,035	1,052
Australian Communications and Media Authority	77	96	92	88	86
Australian Sports Commission	215	226	230	219	197
National Archives of Australia	71	71	71	86	79
National Gallery of Australia	48	50	50	52	54
National Library of Australia	70	69	69	70	70
National Museum of Australia	45	47	46	46	47
Special Broadcasting Service Corporation	241	248	253	257	263
<b>Total</b>	<b>1,880</b>	<b>1,952</b>	<b>1,983</b>	<b>2,002</b>	<b>1,986</b>
<b>Defence</b>					
Department of Defence	18,382	20,087	19,900	20,137	20,579
Defence Materiel Organisation	8,378	9,615	10,868	11,431	11,358
Defence Housing Authority	735	794	846	931	829
Department of Veterans' Affairs	339	342	326	324	323
Australian War Memorial	43	45	46	47	47
<b>Total</b>	<b>27,876</b>	<b>30,884</b>	<b>31,985</b>	<b>32,870</b>	<b>33,136</b>
<b>Education, Science and Training</b>					
Department of Education, Science and Training					
Australian Research Council	15	15	15	16	16
Australian Nuclear Science and Technology Organisation	203	215	228	221	223
Commonwealth Scientific and Industrial Research Organisation	973	1,031	1,069	1,118	1,175
<b>Total</b>	<b>1,704</b>	<b>1,794</b>	<b>1,824</b>	<b>1,847</b>	<b>1,904</b>

**Table A2: Departmental expenses by agency (continued)**

	Estimates		Projections		
	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m	2010-11 \$m
<b>Employment and Workplace Relations</b>					
Department of Employment and Workplace Relations	1,533	1,549	1,502	1,536	1,560
Indigenous Business Australia	110	111	108	111	111
Comcare	324	357	350	347	359
<b>Total</b>	<b>1,968</b>	<b>2,017</b>	<b>1,959</b>	<b>1,994</b>	<b>2,031</b>
<b>Environment and Water Resources</b>					
Department of the Environment and Water Resources	410	570	516	512	505
Bureau of Meteorology	231	255	264	273	280
National Water Commission	10	10	10	10	10
<b>Total</b>	<b>651</b>	<b>835</b>	<b>790</b>	<b>795</b>	<b>795</b>
<b>Families, Community Services and Indigenous Affairs</b>					
Department of Families, Community Services Indigenous Affairs	1,213	1,266	1,202	1,186	1,199
<b>Total</b>	<b>1,213</b>	<b>1,266</b>	<b>1,202</b>	<b>1,186</b>	<b>1,199</b>
<b>Finance and Administration</b>					
Department of Finance and Administration	552	424	379	352	355
Australian Electoral Commission	123	196	115	121	201
Future Fund Management Agency	5	10	12	12	12
<b>Total</b>	<b>679</b>	<b>631</b>	<b>505</b>	<b>484</b>	<b>569</b>
<b>Human Services</b>					
Department of Human Services	611	827	855	759	696
Centrelink	2,544	2,653	2,480	2,481	2,538
Medicare Australia	623	652	691	713	762
<b>Total</b>	<b>3,778</b>	<b>4,132</b>	<b>4,027</b>	<b>3,954</b>	<b>3,996</b>
<b>Foreign Affairs and Trade</b>					
Department of Foreign Affairs and Trade	819	836	833	860	857
AusAID	94	109	112	108	107
Australian Trade Commission	211	203	204	206	207
<b>Total</b>	<b>1,124</b>	<b>1,148</b>	<b>1,149</b>	<b>1,173</b>	<b>1,171</b>
<b>Health and Ageing</b>					
Department of Health and Ageing	626	673	658	661	665
National Blood Authority	9	10	10	10	9
National Health and Medical Research Council	33	35	34	30	30
<b>Total</b>	<b>668</b>	<b>718</b>	<b>702</b>	<b>701</b>	<b>704</b>
<b>Immigration and Citizenship</b>					
Department of Immigration and Citizenship	1,284	1,321	1,287	1,305	1,264
<b>Total</b>	<b>1,284</b>	<b>1,321</b>	<b>1,287</b>	<b>1,305</b>	<b>1,264</b>
<b>Industry, Tourism and Resources</b>					
Department of Industry, Tourism and Resources	342	380	383	374	392
Tourism Australia	161	162	164	165	166
<b>Total</b>	<b>504</b>	<b>542</b>	<b>547</b>	<b>539</b>	<b>559</b>
<b>Parliament</b>					
Department of Parliamentary Services	118	124	125	127	129
<b>Total</b>	<b>118</b>	<b>124</b>	<b>125</b>	<b>127</b>	<b>129</b>

**Table A2: Departmental expenses by agency (continued)**

	Estimates		Projections		
	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m	2010-11 \$m
<b>Prime Minister and Cabinet</b>					
Department of Prime Minister and Cabinet	163	141	70	70	70
<b>Total</b>	<b>163</b>	<b>141</b>	<b>70</b>	<b>70</b>	<b>70</b>
<b>Transport and Regional Services</b>					
Department of Transport and Regional Services	227	249	250	241	233
Civil Aviation Safety Authority	114	139	139	142	133
National Capital Authority	20	22	22	23	23
<b>Total</b>	<b>361</b>	<b>410</b>	<b>412</b>	<b>406</b>	<b>388</b>
<b>Treasury</b>					
Department of the Treasury	156	147	137	138	141
Australian Bureau of Statistics	437	320	299	314	370
Australian Securities and Investment Commission	282	299	311	313	290
Australian Taxation Office	2,656	2,849	2,816	2,784	2,768
Australian Office of Financial Management	9	9	9	10	10
<b>Total</b>	<b>3,541</b>	<b>3,625</b>	<b>3,573</b>	<b>3,559</b>	<b>3,579</b>
<b>Small agencies</b>	<b>3,616</b>	<b>3,861</b>	<b>3,916</b>	<b>3,977</b>	<b>3,989</b>
<b>Whole of government and inter-agency amounts(a)</b>	<b>-9,196</b>	<b>-9,822</b>	<b>-10,830</b>	<b>-11,366</b>	<b>-11,380</b>
<b>Total departmental expenses</b>	<b>45,261</b>	<b>49,043</b>	<b>48,711</b>	<b>49,131</b>	<b>49,608</b>

(a) Estimates of inter-agency transactions are included in the whole of government and inter-agency amounts. The entry for each portfolio does not include eliminations for inter-agency transactions within that portfolio.

**Table A3: Net capital investment by agency**

	Estimates		Projections		
	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m	2010-11 \$m
<b>Agriculture, Fisheries and Forestry</b>					
Department of Agriculture, Fisheries and Forestry	4	31	-2	-2	-2
Grains Research and Development Corporation	0	0	0	0	0
Dairy Structural Adjustment Fund	0	0	0	0	0
<b>Total</b>	<b>4</b>	<b>31</b>	<b>-2</b>	<b>-2</b>	<b>-2</b>
<b>Attorney-General's</b>					
Attorney-General's Department	21	27	26	-21	-22
Australian Customs Service	26	12	-11	-3	-1
Australian Federal Police	61	71	85	-5	-42
Family Court of Australia	0	0	0	0	0
High Court of Australia	0	3	-1	-1	-1
<b>Total</b>	<b>107</b>	<b>113</b>	<b>99</b>	<b>-30</b>	<b>-66</b>
<b>Communications, Information Technology and the Arts</b>					
Department of Communications, Information Technology and the Arts	5	-16	70	-9	-7
Australian Broadcasting Corporation	9	22	11	0	0
Australian Communications and Media Authority	1	5	2	2	1
Australian Sports Commission	14	-8	-8	-8	-8
National Archives of Australia	3	12	11	27	15
National Gallery of Australia	10	18	37	16	-1
National Library of Australia	3	15	4	0	0
National Museum of Australia	13	13	13	7	9
Special Broadcasting Service Corporation	22	10	5	-6	-3
<b>Total</b>	<b>80</b>	<b>71</b>	<b>146</b>	<b>28</b>	<b>7</b>
<b>Defence</b>					
Department of Defence	2,193	2,148	3,987	4,612	4,821
Defence Materiel Organisation	-387	-6	-3	-3	0
Defence Housing Authority	58	-9	41	13	80
Department of Veterans' Affairs	9	10	2	11	4
Australian War Memorial	387	15	11	2	-4
<b>Total</b>	<b>2,260</b>	<b>2,158</b>	<b>4,038</b>	<b>4,635</b>	<b>4,901</b>
<b>Education, Science and Training</b>					
Department of Education, Science and Training	2	13	7	4	-1
Australian Research Council	1	1	-1	-1	-1
Australian Nuclear Science and Technology Organisation	22	7	-24	-27	-31
Commonwealth Scientific and Industrial Research Organisation	-2	-1	7	10	11
<b>Total</b>	<b>24</b>	<b>20</b>	<b>-10</b>	<b>-13</b>	<b>-21</b>

**Table A3: Net capital investment by agency (continued)**

	Estimates		Projections		
	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m	2010-11 \$m
<b>Employment and Workplace Relations</b>					
Department of Employment and Workplace Relations	38	-10	-8	4	4
Indigenous Business Australia	3	0	0	0	0
Comcare	0	1	-1	0	0
<b>Total</b>	<b>41</b>	<b>-9</b>	<b>-8</b>	<b>4</b>	<b>4</b>
<b>Environment and Water Resources</b>					
Department of the Environment and Water Resources	-2	-30	-40	-21	-27
Bureau of Meteorology	29	20	9	12	8
National Water Commission	0	0	0	-1	0
<b>Total</b>	<b>26</b>	<b>-10</b>	<b>-31</b>	<b>-10</b>	<b>-19</b>
<b>Families, Community Services and Indigenous Affairs</b>					
Department of Families, Community Services Indigenous Affairs	19	-101	-4	-10	-20
<b>Total</b>	<b>19</b>	<b>-101</b>	<b>-4</b>	<b>-10</b>	<b>-20</b>
<b>Finance and Administration</b>					
Department of Finance and Administration	160	-184	50	125	4
Australian Electoral Commission	11	-2	4	6	-6
Future Fund Management Agency	2	0	0	0	0
<b>Total</b>	<b>173</b>	<b>-186</b>	<b>53</b>	<b>130</b>	<b>-2</b>
<b>Human Services</b>					
Department of Human Services	28	86	-23	-18	-24
Centrelink	108	55	-35	-15	-28
Medicare Australia	3	5	-6	-7	-6
<b>Total</b>	<b>140</b>	<b>146</b>	<b>-63</b>	<b>-40</b>	<b>-58</b>
<b>Foreign Affairs and Trade</b>					
Department of Foreign Affairs and Trade	216	17	66	107	52
AusAID	15	-2	-3	-2	-2
Australian Trade Commission	-39	13	-1	-1	-1
<b>Total</b>	<b>192</b>	<b>28</b>	<b>62</b>	<b>104</b>	<b>49</b>
<b>Health and Ageing</b>					
Department of Health and Ageing	93	97	6	-10	-10
National Blood Authority	2	1	0	1	1
National Health and Medical Research Council	1	0	0	0	0
<b>Total</b>	<b>96</b>	<b>98</b>	<b>6</b>	<b>-9</b>	<b>-9</b>
<b>Immigration and Citizenship</b>					
Department of Immigration and Citizenship	133	334	-36	-47	104
<b>Total</b>	<b>133</b>	<b>334</b>	<b>-36</b>	<b>-47</b>	<b>104</b>
<b>Industry, Tourism and Resources</b>					
Department of Industry, Tourism and Resources	22	18	7	0	-9
Tourism Australia	3	0	-1	0	0
<b>Total</b>	<b>26</b>	<b>18</b>	<b>5</b>	<b>0</b>	<b>-9</b>
<b>Parliament</b>					
Department of Parliamentary Services	-41	-19	-25	-28	-29
<b>Total</b>	<b>-41</b>	<b>-19</b>	<b>-25</b>	<b>-28</b>	<b>-29</b>



**Table A3: Net capital investment by agency (continued)**

	Estimates		Projections		
	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m	2010-11 \$m
<b>Prime Minister and Cabinet</b>					
Department of Prime Minister and Cabinet	29	-5	-3	-3	-3
<b>Total</b>	<b>29</b>	<b>-5</b>	<b>-3</b>	<b>-3</b>	<b>-3</b>
<b>Transport and Regional Services</b>					
Department of Transport and Regional Services	112	-721	-1,114	-436	-23
Civil Aviation Safety Authority	0	3	-1	0	-1
National Capital Authority	5	39	43	10	-3
<b>Total</b>	<b>118</b>	<b>-680</b>	<b>-1,072</b>	<b>-426</b>	<b>-27</b>
<b>Treasury</b>					
Department of the Treasury	-74	0	0	-1	-1
Australian Bureau of Statistics	2	3	-1	-1	11
Australian Securities and Investment Commission	21	37	30	-9	-8
Australian Taxation Office	53	71	22	-17	-17
Australian Office of Financial Management	0	0	0	0	0
<b>Total</b>	<b>3</b>	<b>111</b>	<b>51</b>	<b>-28</b>	<b>-15</b>
<b>Small agencies</b>	<b>353</b>	<b>230</b>	<b>85</b>	<b>-11</b>	<b>59</b>
<b>Whole of government and inter-agency amounts(a)</b>	<b>205</b>	<b>-135</b>	<b>49</b>	<b>78</b>	<b>256</b>
<b>Total net capital investment</b>	<b>3,988</b>	<b>2,215</b>	<b>3,340</b>	<b>4,322</b>	<b>5,097</b>

(a) Estimates of inter-agency transactions are included in the whole of government and inter-agency amounts. The entry for each portfolio does not include eliminations for inter-agency transactions within that portfolio.

**Table A4: Capital appropriations by portfolio**

	Estimates		Projections		
	2006-07	2007-08	2008-09	2009-10	2010-11
	\$m	\$m	\$m	\$m	\$m
<b>Agriculture, Fisheries and Forestry</b>					
Department of Agriculture, Fisheries and Forestry	2	1	0	0	0
Grains Research and Development Corporation	0	0	0	0	0
Dairy Structural Adjustment Fund	0	0	0	0	0
<b>Total</b>	<b>2</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Attorney-General's</b>					
Attorney-General's Department	28	37	19	2	0
Australian Customs Service	38	37	20	4	0
Australian Federal Police	61	90	119	40	12
Family Court of Australia	0	0	0	0	0
High Court of Australia	0	3	0	0	0
<b>Total</b>	<b>128</b>	<b>167</b>	<b>158</b>	<b>46</b>	<b>12</b>
<b>Communications, Information Technology and the Arts</b>					
Department of Communications, Information Technology and the Arts					
Australian Broadcasting Corporation	14	13	11	0	0
Australian Communications and Media Authority	1	8	3	0	0
Australian Sports Commission	16	0	0	0	0
National Archives of Australia	0	0	0	0	0
National Gallery of Australia	22	16	37	6	4
National Library of Australia	5	7	1	1	1
National Museum of Australia	3	5	1	0	0
Special Broadcasting Service Corporation	5	4	3	3	3
<b>Total</b>	<b>72</b>	<b>61</b>	<b>59</b>	<b>11</b>	<b>8</b>
<b>Defence</b>					
Department of Defence	1,998	2,063	3,404	4,431	4,551
Defence Materiel Organisation	0	0	0	0	0
Defence Housing Authority	0	35	0	0	0
Department of Veterans' Affairs	8	3	1	1	0
Australian War Memorial	1	2	9	2	0
<b>Total</b>	<b>2,007</b>	<b>2,103</b>	<b>3,414</b>	<b>4,433</b>	<b>4,551</b>
<b>Education, Science and Training</b>					
Department of Education, Science and Training					
Australian Research Council	0	0	0	0	0
Australian Nuclear Science and Technology Organisation	0	32	2	0	0
Commonwealth Scientific and Industrial Research Organisation	0	0	8	10	10
<b>Total</b>	<b>2</b>	<b>40</b>	<b>15</b>	<b>17</b>	<b>12</b>

**Table A4: Capital appropriations by portfolio (continued)**

	Estimates		Projections		
	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m	2010-11 \$m
<b>Employment and Workplace Relations</b>					
Department of Employment and Workplace Relations	18	10	1	0	0
Indigenous Business Australia	57	38	42	33	0
Comcare	0	0	0	0	0
<b>Total</b>	<b>75</b>	<b>48</b>	<b>43</b>	<b>33</b>	<b>0</b>
<b>Environment and Water Resources</b>					
Department of the Environment and Water Resources	5	26	1	0	0
Bureau of Meteorology	39	28	14	14	60
National Water Commission	0	0	0	0	0
<b>Total</b>	<b>44</b>	<b>54</b>	<b>15</b>	<b>14</b>	<b>60</b>
<b>Families, Community Services and Indigenous Affairs</b>					
Department of Family and Community Services Indigenous Affairs	16	4	0	0	0
<b>Total</b>	<b>16</b>	<b>4</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Finance and Administration</b>					
Department of Finance and Administration	1,404	1,261	1,426	1,320	2,511
Australian Electoral Commission	6	1	2	2	1
Future Fund Management Agency	0	0	0	0	0
<b>Total</b>	<b>1,409</b>	<b>1,262</b>	<b>1,428</b>	<b>1,321</b>	<b>2,512</b>
<b>Human Services</b>					
Department of Human Services	59	62	4	3	0
Centrelink	46	42	0	0	0
Medicare Australia	11	23	0	0	0
Health Insurance Commission	0	0	0	0	0
<b>Total</b>	<b>115</b>	<b>126</b>	<b>4</b>	<b>3</b>	<b>0</b>
<b>Foreign Affairs and Trade</b>					
Department of Foreign Affairs and Trade	60	14	30	95	0
AusAID	29	16	8	6	4
Australian Trade Commission	8	9	0	0	0
<b>Total</b>	<b>97</b>	<b>39</b>	<b>38</b>	<b>101</b>	<b>4</b>
<b>Health and Ageing</b>					
Department of Health and Ageing	75	11	6	2	1
National Blood Authority	0	0	0	0	0
National Health and Medical Research Council	0	1	0	0	0
<b>Total</b>	<b>75</b>	<b>11</b>	<b>6</b>	<b>3</b>	<b>1</b>
<b>Immigration and Citizenship</b>					
Department of Immigration and Citizenship	132	53	29	20	0
<b>Total</b>	<b>132</b>	<b>53</b>	<b>29</b>	<b>20</b>	<b>0</b>
<b>Industry, Tourism and Resources</b>					
Department of Industry, Tourism and Resources	53	59	28	27	29
Tourism Australia	0	0	0	0	0
<b>Total</b>	<b>53</b>	<b>59</b>	<b>28</b>	<b>27</b>	<b>29</b>
<b>Parliament</b>					
Department of Parliamentary Services	14	11	11	12	0
<b>Total</b>	<b>14</b>	<b>11</b>	<b>11</b>	<b>12</b>	<b>0</b>

**Table A4: Capital appropriations by portfolio (continued)**

	Estimates		Projections		
	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m	2010-11 \$m
<b>Prime Minister and Cabinet</b>					
Department of Prime Minister and Cabinet	23	0	0	0	0
<b>Total</b>	<b>23</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Transport and Regional Services</b>					
Department of Transport and Regional Services	86	12	20	15	5
Civil Aviation Safety Authority	0	1	0	0	0
National Capital Authority	3	7	43	12	1
<b>Total</b>	<b>89</b>	<b>21</b>	<b>62</b>	<b>27</b>	<b>6</b>
<b>Treasury</b>					
Department of the Treasury	85	56	40	27	20
Australian Bureau of Statistics	1	2	0	0	0
Australian Securities and Investment Commission	7	37	14	6	0
Australian Taxation Office	14	47	27	1	0
Australian Office of Financial Management	238,973	235,783	237,959	238,570	245,111
<b>Total</b>	<b>239,079</b>	<b>235,925</b>	<b>238,040</b>	<b>238,604</b>	<b>245,131</b>
<b>Small agencies</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Whole of government and inter-agency amounts(a)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total capital appropriations</b>	<b>243,434</b>	<b>239,983</b>	<b>243,352</b>	<b>244,673</b>	<b>252,327</b>

(a) Estimates of inter-agency transactions are included in the whole of government and inter-agency amounts. The entry for each portfolio does not include eliminations for inter-agency transactions within that portfolio.

**Table A5: Estimates of average staffing level (ASL) of agencies in the Australian Government general government sector<sup>(a)</sup>**

	Average staffing levels		
	2006-07	2007-08	Change
<b>Agriculture, Fisheries and Forestry</b>			
Department of Agriculture, Fisheries and Forestry	4,214	4,362	148
Australian Fisheries Management Authority	203	200	-3
Australian Pesticides and Veterinary Medicines Authority	134	136	2
Australian Wine and Brandy Corporation	63	63	0
Biosecurity Australia	121	132	11
Cotton Research and Development Corporation	11	12	1
Dairy Structural Adjustment Fund	2	2	0
Fisheries Research and Development Corporation	10	11	1
Forest and Wood Products Research and Development Corporation(b)	7	0	-7
Grains Research and Development Corporation	48	51	3
Grape and Wine Research and Development Corporation	12	12	0
Land and Water Resources Research and Development Corporation	50	50	0
Rural Industries Research and Development Corporation	26	27	1
Sugar Research and Development Corporation	8	10	2
Wheat Export Authority	16	16	0
<b>Total</b>	<b>4,925</b>	<b>5,084</b>	<b>159</b>
<b>Attorney-General's</b>			
Attorney-General's Department	1,248	1,338	90
Administrative Appeals Tribunal	166	168	2
Australian Crime Commission	535	626	93
Australian Customs Service	5,400	5,394	-6
Australian Federal Police	5,714	6,107	393
Australian Institute of Criminology	50	53	3
Australian Law Reform Commission	19	19	0
Australian Security Intelligence Organisation	1,177	1,349	172
Australian Transaction Reports and Analysis Centre (AUSTRAC)	206	285	79
Criminology Research Council	0	0	0
CrimTrac	70	93	23
Family Court of Australia	680	680	0
Federal Court of Australia	398	398	0
Federal Magistrates Service	189	205	16
High Court of Australia	100	97	-3
Human Rights and Equal Opportunity Commission	108	114	6
Insolvency and Trustee Service Australia	255	290	35
National Native Title Tribunal	214	216	2
Office of Film and Literature Classification	53	53	0
Office of Parliamentary Counsel	42	46	4
Office of the Director of Public Prosecutions	496	580	84
Office of the Privacy Commissioner	51	56	5
<b>Total</b>	<b>17,171</b>	<b>18,167</b>	<b>998</b>

**Table A5: Estimates of average staffing level (ASL) of agencies in the Australian Government general government sector<sup>(a)</sup> (continued)**

	Average staffing levels		
	2006-07	2007-08	Change
<b>Communication, Information Technology and the Arts</b>			
Department of Communications, Information Technology and the Arts	861	928	67
Australia Business and Arts Foundation	33	32	-1
Australia Council	142	140	-2
Australian Broadcasting Corporation	4,300	4,300	0
Australian Communications and Media Authority	520	560	40
Australian Film Commission	282	280	-2
Australian Film Television and Radio School	170	173	3
Australian National Maritime Museum	105	105	0
Australian Sports Commission	729	745	16
Australian Sports Anti-Doping Agency	59	62	3
Bundanon Trust	14	16	2
Film Australia Limited	50	49	-2
National Archives of Australia	452	452	0
National Gallery of Australia	238	238	0
National Library of Australia	431	424	-7
National Museum of Australia	248	250	2
Special Broadcasting Service	770	770	0
<b>Total</b>	<b>9,405</b>	<b>9,524</b>	<b>119</b>
<b>Defence</b>			
Department of Defence - Military	51,476	52,505	1,029
Department of Defence - Reserves	19,550	19,530	-20
Department of Defence - Civilian	14,500	14,658	158
Defence Housing Australia	686	701	15
Defence Materiel Organisation	4,961	5,112	151
Department of Veterans' Affairs	2,320	2,289	-31
Australian War Memorial	283	287	4
<b>Total</b>	<b>93,776</b>	<b>95,082</b>	<b>1,306</b>
<b>Education, Science and Training</b>			
Department of Education, Science and Training	2,240	2,400	160
Australian Institute of Aboriginal and Torres Strait Islander Studies	119	117	2
Australian Institute of Marine Science	159	169	10
Australian Nuclear Science and Technology Organisation	880	880	0
Australian Research Council	72	74	2
Commonwealth Scientific and Industrial Research Organisation	5,860	5,883	23
Teaching Australia - Australian Institute for Teaching and School Leadership Limited	20	25	5
The Carrick Institute for Learning and Teaching in Higher Education	20	25	5
<b>Total</b>	<b>9,370</b>	<b>9,573</b>	<b>207</b>

**Table A5: Estimates of average staffing level (ASL) of agencies in the Australian Government general government sector<sup>(a)</sup> (continued)**

	Average staffing levels		
	2006-07	2007-08	Change
<b>Employment and Workplace Relations</b>			
Department of Employment and Workplace Relations	3,687	3,702	15
Australian Industrial Relations Commission and Australian Industrial Registry	227	209	-18
The Office of the Australian Building and Construction Commissioner	155	155	0
Australian Fair Pay Commission	28	39	11
Comcare	392	442	50
Equal Opportunity for Women in the Workplace Agency	20	20	0
Indigenous Business Australia	173	190	17
Office of Workplace Services	275	293	18
<b>Total</b>	<b>4,957</b>	<b>5,050</b>	<b>93</b>
<b>Environment and Water and Resources</b>			
Department of the Environment and Water Resources	1,799	2,128	329
Bureau of Meteorology	1,254	1,258	5
Director of National Parks	272	263	-9
Great Barrier Reef Marine Park Authority	198	204	6
National Water Commission	51	54	3
Office of the Renewable Energy Regulator	12	12	0
Sydney Harbour Federation Trust	47	47	0
<b>Total</b>	<b>3,633</b>	<b>3,966</b>	<b>334</b>
<b>Families, Community Services and Indigenous Affairs</b>			
Department of Families, Community Services and Indigenous Affairs	2,565	2,683	118
Aboriginal Hostels Limited	409	415	6
Anindilyakwa Land Council	13	13	0
Australian Institute of Family Studies	58	60	2
Central Land Council	122	122	0
Indigenous Land Corporation	170	180	10
Northern Land Council	130	130	0
Tiwi Land Council	9	9	0
Torres Strait Regional Authority	50	50	0
<b>Total</b>	<b>3,526</b>	<b>3,662</b>	<b>136</b>
<b>Finance and Administration</b>			
Department of Finance and Administration	1,243	1,300	57
Australian Electoral Commission	756	766	10
Australian Rewards Investment Alliance	36	43	7
Commonwealth Grants Commission	48	50	2
Commonwealth Superannuation Administration	402	487	85
Future Fund Management Agency	9	20	11
<b>Total</b>	<b>2,494</b>	<b>2,666</b>	<b>172</b>
<b>Foreign Affairs and Trade</b>			
Department of Foreign Affairs and Trade	3,385	3,400	15
AusAID	518	564	46
Australian Trade Commission	1,047	1,037	-10
Australian Centre for International Agricultural Research	64	64	1
Australian Secret Intelligence Service(c)	1	1	0
<b>Total</b>	<b>5,015</b>	<b>5,066</b>	<b>52</b>

**Table A5: Estimates of average staffing level (ASL) of agencies in the Australian Government general government sector<sup>(a)</sup> (continued)**

	Average staffing levels		
	2006-07	2007-08	Change
<b>Health and Ageing</b>			
Department of Health and Ageing	3,996	4,175	179
Aged Care Standards and Accreditation Agency	211	218	7
Australian Institute of Health and Welfare	189	189	0
Australian Radiation Protection and Nuclear Safety Agency	126	137	11
Cancer Australia	20	25	5
Food Standards Australia New Zealand	127	132	5
General Practice Education and Training Limited	31	31	0
National Blood Authority	40	39	-1
National Health and Medical Research Council	176	226	50
Private Health Insurance Administration Council	23	23	0
Private Health Insurance Ombudsman	8	9	1
Professional Services Review	15	15	0
<b>Total</b>	<b>4,962</b>	<b>5,219</b>	<b>257</b>
<b>Human Services</b>			
Department of Human Services	5,254	6,509	1,255
Centrelink	24,860	25,230	370
Medicare Australia	5,231	5,146	-85
<b>Total</b>	<b>35,345</b>	<b>36,885</b>	<b>1,540</b>
<b>Immigration and Citizenship</b>			
Department of Immigration and Citizenship	6,990	7,249	259
Migration Review Tribunal - Refugee Review Tribunal	340	340	0
<b>Total</b>	<b>7,330</b>	<b>7,589</b>	<b>259</b>
<b>Industry Tourism and Resources</b>			
Department of Industry, Tourism and Resources	1,886	1,945	59
Geoscience Australia	664	680	16
IP Australia	854	917	63
National Offshore Petroleum Safety Authority	40	48	8
Tourism Australia	233	233	0
<b>Total</b>	<b>3,677</b>	<b>3,823</b>	<b>146</b>
<b>Parliament</b>			
Department of Parliamentary Services	770	780	10
Department of the House of Representatives	157	157	0
Department of the Senate	158	157	-1
<b>Total</b>	<b>1,085</b>	<b>1,094</b>	<b>9</b>
<b>Prime Minister and Cabinet</b>			
Department of the Prime Minister and Cabinet	610	526	-84
Australian National Audit Office	300	305	5
Australian Public Service Commission	201	206	5
Office of National Assessments	139	145	6
Office of the Commonwealth Ombudsman	148	145	-3
Office of the Inspector-General of Intelligence and Security	7	10	3
Office of the Official Secretary to the Governor-General	88	91	3
<b>Total</b>	<b>1,493</b>	<b>1,428</b>	<b>-65</b>



**Table A5: Estimates of average staffing level (ASL) of agencies in the Australian Government general government sector<sup>(a)</sup> (continued)**

	Average staffing levels		
	2006-07	2007-08	Change
<b>Transport and Regional Services</b>			
Department of Transport and Regional Services	1,268	1,332	64
Australian Maritime Safety Authority	242	246	4
Civil Aviation Safety Authority	635	683	48
National Capital Authority	87	89	2
<b>Total</b>	<b>2,232</b>	<b>2,350</b>	<b>118</b>
<b>Treasury</b>			
Department of the Treasury	890	853	-37
Australian Bureau of Statistics	3,300	2,766	-534
Australian Competition and Consumer Commission	588	606	18
Australian Office of Finance Management	35	35	0
Australian Prudential Regulation Authority	550	580	30
Australian Securities and Investments Commission	1,594	1,586	-8
Australian Taxation Office	20,908	20,792	-116
Corporations and Markets Advisory Committee	4	4	0
Inspector General of Taxation	7	7	0
National Competition Council	15	9	-6
Productivity Commission	204	218	14
Royal Australian Mint	132	175	43
<b>Total</b>	<b>28,227</b>	<b>27,631</b>	<b>-596</b>
<b>TOTAL (for all general government sector agencies)</b>	<b>238,622</b>	<b>243,859</b>	<b>5,244</b>

- (a) This table includes estimates of ASL provided by general government sector agencies. ASL figures reflect the average number of employees receiving salary or wages over the financial year, with adjustments for casual and part-time staff, to show the full-time equivalent. This also includes non-uniformed staff and overseas personnel.
- (b) Expected to be privatised 1 July 2007.
- (c) Further information can not be provided for security reasons.



# STATEMENT 11: STATEMENT OF RISKS

A range of factors may influence the actual budget outcome in future years. The *Charter of Budget Honesty Act 1998* requires these factors be disclosed in a Statement of Risks in each Budget and Mid-Year and Economic and Fiscal Outlook. This statement outlines the fiscal risks and the contingent liabilities which may affect the budget balances.

<b>Risks to the budget — overview .....</b>	<b>11-3</b>
<b>Fiscal risks — revenue .....</b>	<b>11-6</b>
<b>Fiscal risks — expenses.....</b>	<b>11-7</b>
<b>Contingent liabilities — quantifiable .....</b>	<b>11-8</b>
<b>Contingent liabilities — unquantifiable .....</b>	<b>11-10</b>



# STATEMENT 11: STATEMENT OF RISKS

The forward estimates of revenue and expenses in the 2007-08 Budget incorporate assumptions and judgments based on the best information available at the time of publication. A range of factors may influence the actual budget outcome in future years. The disclosure of these factors in this statement increases the transparency of the fiscal projections and ensures they remain 'on-balance' estimates.

Events that could affect fiscal outcomes include:

- changes in economic and other parameters;
- matters not included in the fiscal forecasts because of uncertainty about their timing, magnitude and/or likelihood; and
- the realisation of contingent liabilities.

## RISKS TO THE BUDGET — OVERVIEW

### Economic and other parameters

The revenue and expense estimates and projections are based on a range of economic and other parameters. If the economic outlook were to differ from that presented in Statement 3, the revenue and expense estimates and projections would also change. Statement 3 discusses risks to the economic forecasts. Statement 2 discusses the sensitivity of revenue and expense estimates to changes in the major economic parameters.

### Fiscal risks

Fiscal risks are general developments or specific events that may affect the fiscal outlook. Some developments or events simply raise the possibility of some fiscal impact. In other cases, some fiscal impact may be reasonably certain, but it will not be included in the forward estimates because the timing or magnitude is not known. Fiscal risks may affect expenses and/or revenue and may have a positive or negative impact on revenue, expenses and/or the budget balance. Contingent liabilities are a specific category of fiscal risks.

### Contingent liabilities

Contingent liabilities are defined by the accounting standard AASB 137, which came into effect on 1 July 2005. Broadly, they represent possible costs to the Australian Government arising from past events that the outcome of future events not within the control of the Government will confirm. Contingent liabilities include loan guarantees, non-loan guarantees, warranties, indemnities, uncalled capital and letters of comfort.

## *Statement 11: Statement of Risks*

These possible costs are in addition to those recognised as liabilities in the consolidated financial statements of the Australian Government general government sector.

The Australian Government's major exposure to contingent liabilities arises from legislation guaranteeing certain liabilities of Australian Government controlled financial institutions (the Reserve Bank of Australia and the Export Finance and Insurance Corporation) and the now fully privatised Commonwealth Bank of Australia. To help manage these exposures, strategies are in place which aim to ensure the underlying strength and viability of the entities, so that the guarantees are not triggered.

Another class of contingent liability is uncalled capital, which reflects a financial commitment to an institution where no promissory note is issued by the Australian Government. Uncalled capital is primarily associated with international financial institutions such as the International Bank for Reconstruction and Development, the Asian Development Bank, the European Bank for Reconstruction and Development and the Multilateral Investment Guarantee Agency. When promissory notes are issued, such as in the case of the International Monetary Fund, the amounts are recorded in the general government balance sheet, so contingent liabilities (or assets) are not shown for those amounts.

### **Details of fiscal risks and contingent liabilities**

Contingent liabilities and other fiscal risks with a possible impact on the forward estimates greater than \$20 million in any one year, or \$40 million over the forward estimates period, are listed below.

Information on fiscal risks takes account of Parliament's decisions and other developments until the close of parliamentary business on 30 April 2007. In general, information on contingent liabilities is based on information provided by Australian Government departments and agencies and is current to 31 March 2007. However, in some cases other dates are used and are noted in the relevant section.

Information on contingent liabilities is also provided in the annual financial statements of departments and non-budget entities.

**Table 1: Summary of material changes to Statement of Risks since the 2006-07 Budget and Mid-Year Economic and Fiscal Outlook 2006-07<sup>(a)</sup>**

<b>Fiscal risks — expenses</b>	
<b>Agriculture, Fisheries and Forestry</b>	
Exceptional Circumstances assistance for drought-affected farmers	Modified
<b>Contingent liabilities — quantifiable</b>	
<b>Defence and Defence Material Organisation</b>	
Indemnities	Modified
<b>Finance and Administration</b>	
Australian Industry Development Corporation	Modified
Potential claims relating to superannuation benefits	Modified
<b>Foreign Affairs and Trade</b>	
Export Finance and Insurance Corporation	Modified
<b>Treasury</b>	
Guarantees under the Commonwealth Bank Sale Act	Modified
International financial institutions – uncalled capital subscriptions	Modified
Reserve Bank of Australia – guarantee	Modified
<b>Contingent liabilities — unquantifiable</b>	
<b>Attorney-General's</b>	
Native title costs	Modified
Other indemnities	Deleted
<b>Defence</b>	
ASC Proprietary Limited – Australian Government indemnities provided to Electric Boat Corporation under the services agreement	Modified
Decontamination of Defence sites	Modified
HMAS <i>Melbourne</i> and HMAS <i>Voyager</i> damages claims	Modified
Litigation cases	Modified
<b>Employment and Workplace Relations</b>	
COMCARE liability for additional workers' compensation payments	Deleted
<b>Environment and Heritage</b>	
Antarctic – make good provision	Deleted
<b>Finance and Administration</b>	
Australian Reward Investment Alliance - Immunity and Indemnity	New
Indemnities relating to other former asset sales, privatisations and IT outsourcing projects	Modified
Industrial Waste Commission (IWC) Cleanaway	New
Telstra Sale Company Limited – indemnities	New
Tuggeranong Office Park Pty Ltd – shareholder indemnity	Deleted
<b>Health and Ageing</b>	
Blood and blood products liability cover	Modified
<b>Immigration and Citizenship</b>	
Immigration detention services	Modified
<b>Industry, Tourism and Resources</b>	
Liability for damages caused by Kistler space activities	Modified
<b>Treasury</b>	
Housing Loans Insurance Corporation – guarantee	Modified

(a) Risks appearing in this Statement but not listed in the table above are substantially unchanged since disclosed in Budget Paper No. 1, *Budget Strategy and Outlook 2006-07*, Statement 11 or in *Mid-Year Economic and Fiscal Outlook 2006-07*, Appendix D.

## **FISCAL RISKS — REVENUE**

The Government's revenue and policy measure forecasts, like all forecasts, are subject to a margin of error. Over the past 20 years, the average error for forecasts of cash receipts has been 1.1 per cent, with the errors varying around this average by 2.7 percentage points.

There are not enough observations to assess the forecasting performance for accrual revenue. In the first half of the current decade, revenue has grown more strongly than forecast. The revenue forecasting methodology has been adjusted in recent years to align the revenue forecasts and projections more closely to recent experience.

While many of the forecasts are reported to the nearest million dollars for budget accounting purposes, they should not be interpreted as implying an equivalent level of forecast precision.

The general and specific risks influencing the accuracy of the revenue forecasts are outlined below.

### **General risks**

The estimates and projections of revenue are subject to a number of general pressures that can affect taxation collections. These general pressures include tax avoidance, developments in communications technology and workplace arrangements, court decisions and Australian Taxation Office rulings. These pressures may result in a shift in the composition of taxation collected from the various tax bases and/or a change in the size of the tax base. The revenue forecasts include an appropriate allowance for these factors, given the data available.

### **Specific risks**

#### **Treasury**

##### **Renegotiation of withholding tax rates in certain Australian double tax treaties**

The Australian Government is renegotiating its double tax treaties with several countries. Depending on the negotiated outcomes, changes to these treaties could have positive or negative revenue effects.



## **FISCAL RISKS — EXPENSES**

### **Agriculture, Fisheries and Forestry**

#### **Exceptional Circumstances assistance for drought-affected farmers**

Exceptional Circumstances assistance is available, subject to eligibility criteria, to drought-affected farmers and agriculture-dependent small businesses by way of interest rate subsidies and/or income support. The forward estimates assume that there will be neither new drought declarations nor extensions of existing declarations. A continuation of adverse seasonal conditions or a return to severe drought conditions could result in higher than expected expenses for these forms of assistance. It is not possible to quantify the cost arising from such potential developments as this depends on the intensity, duration and scale of future drought conditions.

### **Health and Ageing**

#### **Immunisation funding mechanism**

Future technologies will result in new vaccines changing the profile of usage (for example, multivalent vaccines which combine several vaccines into one) and, as a consequence, could result in higher costs. It is not possible to quantify the potential fiscal risk arising from these factors.

#### **Medicare Benefits Schedule and Pharmaceutical Benefits Scheme**

From time to time items are added to, or removed from, the Medicare Benefits Schedule and Pharmaceutical Benefits Scheme. Major technological advances in medicines or medical procedures, shifts in Pharmaceutical Benefits Scheme usage patterns, or doctors' prescribing and charging practices may result in unexpected increases in expenses that exceed the provision in the forward estimates. It is not possible to quantify the potential fiscal risk arising from these factors.

### **Transport and Regional Services**

#### **Airservices Australia**

On 31 August 2004, the Minister for Transport and Regional Services, pursuant to section 16 of the *Airservices Act 1995* (the Act), gave a direction to Airservices Australia to provide an operating control tower and approach radar control services in certain volumes of airspace. Section 16(4) of the Act provides that Airservices Australia may seek reimbursement from the Australian Government for any financial detriment it suffers as a result of complying with a direction. At this time, the quantum or nature of any financial detriment is uncertain, as is the nature of any consequent fiscal risk to the budget.

## **CONTINGENT LIABILITIES — QUANTIFIABLE**

### **Defence and Defence Materiel Organisation**

#### **Indemnities**

The Department of Defence (Defence) and the Defence Materiel Organisation (DMO) carry an extensive range of indemnities and undertakings, normally of a short-term nature, relating to business, training activities and other activities involving contracts, agreements and other Defence and DMO arrangements. Indemnities issued cover potential losses or damages for which the Australian Government would be liable.

Defence carries 315 instances of contingencies that are unquantifiable and 31 instances of quantifiable contingencies to the value of \$1.6 billion. DMO carries 28 instances of contingencies that are unquantifiable and 186 contingencies that are quantifiable, to the value of \$3.2 billion. While these contingencies are considered remote, they have been reported in aggregate for completeness.

### **Finance and Administration**

#### **Australian Industry Development Corporation**

Under the *Australian Industry Development Corporation Act 1970* certain obligations of the Australian Industry Development Corporation (AIDC) are guaranteed by the Australian Government. As at 31 December 2006, AIDC's contingent liabilities, subject to Australian Government guarantee, were approximately \$125 million in respect of guarantees and credit risk facilities.

In addition, AIDC had outstanding Australian Government guaranteed borrowings which totalled approximately \$170 million as at the most current valuation of 31 December 2006. These borrowing obligations have been matched by AIDC's holdings of Australian Government guaranteed securities of similar value, largely eliminating the Australian Government's guarantee exposure. These securities were purchased on market by UBS Warburg and paid to AIDC as consideration for UBS Warburg's purchase of AIDC Ltd's (a subsidiary of AIDC) financial assets. UBS AG, the international parent company that has taken over from UBS Warburg, manages this borrowing portfolio on behalf of AIDC. The UBS AG arrangement also provides a guarantee to cover any cash flow differences between the interest rate and maturity profiles of the matched borrowings and securities, together with any exchange rate movements in the borrowings. The Australian Government's contingent exposure to these borrowings is therefore negligible and is consequently recorded as zero.

#### **Litigation**

The Department of Finance and Administration is involved in litigation where a counter-claim for damages has been lodged against the Australian Government. The counter-claim, which will be vigorously defended by the Australian Government,

seeks damages of \$4.3 billion although the basis for this amount is yet to be fully provided.

### **Potential claims relating to superannuation benefits**

On 20 April 2007, the High Court rejected the Commonwealth of Australia's appeal on a claim for negligent misstatement relating to superannuation benefits for a former employee of the Department of the Interior. The potential liability for the first 400 cases is estimated at \$235 million. There is potential for more claims to arise from other former employees.

### **Sale of Sydney Airports Corporation Limited**

An indemnity has been provided to Southern Cross Airports Corporation as purchaser of the Sydney Airports Corporation Ltd in the event of a liability arising under Chapter 3 of the *Duties Act 1997* (New South Wales) by reason of the sale of shares in Sydney Airports Corporation Ltd constituting a relevant acquisition in a land-rich private corporation.

The New South Wales Office of State Revenue issued a notice of assessment on 17 November 2006, which the Australian Government disputes to be a valid assessment. In the event the liability is sustained it is estimated to be between \$258.9 million and \$401.5 million.

## **Foreign Affairs and Trade**

### **Export Finance and Insurance Corporation**

The Australian Government guarantees the due payment by the Export Finance and Insurance Corporation (EFIC) of money that is, or may at any time become, payable by EFIC to any body other than the Australian Government. The Australian Government also has in place a \$200 million callable capital facility available to EFIC on request to cover liabilities, losses and claims. As at 31 March 2007, the Australian Government's total contingent liability was \$2.8 billion, comprising EFIC's liabilities to third parties (\$2.2 billion) and EFIC's overseas investments insurance, contracts of insurance and guarantees (\$0.6 billion).

## **Transport and Regional Services**

### **Code Management Company — indemnity for the Code of Practice for the Defined Interstate Rail Network**

The Code Management Company (CMC) is a company owned by the Australasian Railway Association whose members include all of Australia's major rail operators and track owners and representatives from smaller companies. The Australian Government has provided an indemnity to CMC against any loss or expense that occurred prior to the transfer of ownership from the Commonwealth relating to the correct use or application of the Code of Practice for the Defined Interstate Rail Network. The Code sets out a national approach to operational and engineering practices, including

## Statement 11: Statement of Risks

uniform standards for safe working, train operations and freight loading specifications. The indemnity is limited to an aggregate of \$50 million for a period of six years from the date of transfer of ownership and expires on 15 July 2009.

### **Treasury**

#### **Guarantees under the Commonwealth Bank Sale Act**

Under the terms of the *Commonwealth Bank Sale Act 1995*, the Australian Government has guaranteed various superannuation and other liabilities amounting to around \$6.2 billion. Of this amount, \$2.2 billion was attributable to liabilities of the Commonwealth Bank of Australia at 31 December 2006 and \$4.0 billion was attributable to liabilities of the Commonwealth Bank Officers' Superannuation Corporation at 30 June 2006.

#### **International financial institutions — uncalled capital subscriptions**

This contingent liability relates to the value of the uncalled portion of the Australian Government's shares in the International Bank for Reconstruction and Development (US\$2.8 billion – estimated value A\$3.4 billion), the Asian Development Bank (US\$2.4 billion – estimated value A\$3.0 billion), the European Bank for Reconstruction and Development (US\$81.7 million plus €77.5 million – estimated value A\$229.3 million), and the Multilateral Investment Guarantee Agency (US\$26.5 million – estimated value A\$32.8 million).

#### **Reserve Bank of Australia — guarantee**

This contingent liability relates to the Australian Government's guarantee of the liabilities of the Reserve Bank of Australia. It is measured as the Bank's total liabilities excluding capital, reserves and Australian Government deposits. The major component of the Bank's liabilities are notes (that is, currency) on issue. Notes on issue amount to \$40.6 billion as at 31 March 2007 and the total guarantee is \$59.3 billion.

### **CONTINGENT LIABILITIES — UNQUANTIFIABLE**

#### **Attorney-General's**

##### **Indemnities relating to the Air Security Officer programme**

The Australian Government has entered into indemnity agreements with Australian airlines that agree to allow their aircraft to fly with Air Security Officers on board. The indemnity agreements limit the Australian Government's exposure to a maximum of \$2 billion per incident. The indemnity applies to the extent that any loss is not covered by existing relevant insurance policies held by the airline and only applies where the airline(s) can prove that an action on the part of an Air Security Officer under or in connection with the Air Security Officer programme caused a loss.

### **Native title agreements — access to geospatial data**

The Australian Government has entered into agreements with State and Territory government bodies and/or their agents to access their geospatial data. The data is essential to support the National Native Title Tribunal in achieving its outcome. Under these agreements, the Australian Government provides indemnities against third party claims arising from errors in the data.

### **Native title costs**

The Australian Government has offered to assist the States and Territories in meeting native title compensation costs arising under the *Native Title Act 1993*. The amounts that might be paid by the Australian Government will be subject to the terms of financial assistance agreements being negotiated with the States and Territories. No agreements have been entered into to date. The Australian Government's liability cannot be quantified due to uncertainty about the number and effect of compensable acts, both in the past and in the future, and the value of native title affected by those acts. Similarly, it is not possible to quantify the liability for compensable acts for which the Australian Government may be directly liable.

The Australian Government has also offered to assist the States and Territories with the costs of bodies performing native title functions under state legislation. The extent of this assistance will depend on the existence of such bodies, the timing of their recognition and the extent of their use.

### **Ocean surveillance**

The Australian Government has entered into contractual arrangements with P&O Maritime Services for the provision of maritime charter services until June 2010 to facilitate the Australian Customs Service and the Department of Agriculture, Fisheries and Forestry armed patrols of Australia's exclusive economic zone.

The Australian Government has indemnified P&O Maritime Services against certain claims arising from the discharge of firearms or munitions, or where a steaming party is deployed to crew a seized vessel back to an Australian port.

## **Communications, Information Technology and the Arts**

### **Art Indemnity Australia**

Art Indemnity Australia is a programme through which the Australian Government indemnifies cultural objects loaned to exhibitions displayed in Australian museums and galleries. The exact amounts involved will vary with the exchange rate applying at the time any claim for loss or damage to an artwork or heritage object loaned from overseas is paid, and the extent of any loss or damage. Most of the Australian Government risk in indemnifying exhibitions is insured through Comcover. Uninsurable risk continues to be borne solely by the Australian Government.

## **Defence**

### **ADI Limited — officers' and directors' indemnities**

Under the sale agreements for ADI Ltd, the Australian Government agreed to indemnify the directors, officers and employees for claims and legal costs associated with assistance related to the sale of the Australian Government's shares in the company. The Australian Government has provided an indemnity to ADI Ltd for uninsured losses relating to specific heads of claims.

### **ASC Proprietary Limited — Australian Government indemnities provided to Electric Boat Corporation under the services agreement**

In early October 2002, the Department of Defence entered into a services agreement with Electric Boat Corporation (EB) and its subsidiary Electric Boat Australia (EBA) to provide technical and commercial support to ASC Pty Ltd as it transitioned from being a producer of submarines to an agency for through-life submarine support. EB/EBA staff commenced at ASC Pty Ltd on 14 October 2002. The initial services agreement ran for three years and the Australian Government has taken up the option to extend the agreement by a further three years. The extension has been incorporated into the Strategic Agreement for Through-Life Support of the Collins Class Submarines with ASC Pty Ltd.

Under this agreement, EB and EBA are provided with a warranty by the Australian Government and ASC Pty Ltd that the Australian Government and ASC Pty Ltd have the right to provide EB/EBA with confidential and other information and the Australian Government provides an indemnity to EB and EBA against claims arising from a breach of that warranty.

The Australian Government also indemnifies EB and EBA against claims exceeding the greater of US\$1 million or profit earned by EB under the agreement that arises from property loss or personal injury resulting from a defect in the operation or performance of a Collins class submarine, other than caused by unlawful conduct, gross negligence or wilful misconduct of EB or EBA.

### **Decontamination of Defence sites**

The Department of Defence is currently undertaking a detailed large multi-year project to systematically identify and quantify known decontamination obligations across the Defence estate, in accordance with the Australian Accounting Standards. For the sites assessed to date only a minimal number require a provision to be recognised, as in most cases, the conditions for legal or constructive obligations are not met.

### **HMAS *Melbourne* and HMAS *Voyager* damages claims**

Former crew members of HMAS *Melbourne* have instituted legal proceedings against the Australian Government claiming damages for injuries allegedly caused by the HMAS *Voyager*/HMAS *Melbourne* collision on 10 February 1964. Eighty-one claims remain current. Twenty-five of the current claims are statute barred under applicable

state laws. In those cases, the plaintiffs will require an extension of time prior to progressing their claims for damages. Further claims are likely to be made in connection with the collision.

Additionally, 20 dependants of deceased crew of HMAS *Voyager* are named in nine other claims under the *Compensation to Relatives Act 1897* (NSW). Some of these claims may be made in connection with the collision.

### **Litigation cases**

The Department of Defence is involved in a wide range of litigation and other claims for compensation and/or damages that may result in litigation where the matters have yet to be finalised by negotiation or, where required, litigation. Various claims, the subject of cases that have yet to be heard, are part-heard or are subject to an appeal, await a decision on what (if any) damages and/or costs should be paid to the claimant. The litigated and non-litigated claims include common law liability claims and claims arising from complaints to the Human Rights and Equal Opportunity Commission. The litigation includes asbestos claims and claims from injury resulting from the F-111 Deseal/Reseal programmes. Claims have been received for damage caused by the use of Defence Practice Areas and from the presence of unexploded World War II ordnance. At any given point, there are about 400 claims. Presently, they have an estimated value in excess of \$145 million.

### **Military Superannuation and Benefits Scheme — indemnity**

The Military Superannuation and Benefits Scheme (MSBS) provides occupational superannuation benefits for members of the Australian Defence Force. Much of the day-to-day administration associated with the MSBS is conducted by ComSuper. Under the *Military Superannuation and Benefits Act 1991* the actions of ComSuper and its Commissioner are deemed to be those of the Military Superannuation and Benefits Board (MSB Board). Defence has indemnified the MSB Board for certain specified claims that are made in relation to acts of ComSuper and/or its Commissioner that are not recoverable elsewhere.

### **Education, Science and Training**

#### **Australian Nuclear Science and Technology Organisation — indemnity**

The Australian Government has indemnified the Australian Nuclear Science and Technology Organisation and its officers from liability that might be incurred from the conduct of activities authorised under the *Australian Nuclear Science and Technology Organisation Act 1987*. This indemnity is additional to commercial insurance covers obtained from the Comcover Insurance Pool and other insurers.

## **Finance and Administration**

### **Australian Reward Investment Alliance – Immunity and Indemnity**

The *Superannuation Act 1976*, *Superannuation Act 1990* and *Superannuation Act 2005* provide for specific immunities for activities undertaken in good faith by the trustees of the Australian Reward Investment Alliance (ARIA), the Commissioner for Superannuation and staff, delegates of the trustee Board, and members of a Reconsideration Advisory Committee, provided these activities relate to the performance of their functions.

These immunities do not prevent the trustee Board from being subject to any action, liability, claim or demand. Under the Superannuation Acts, other than in cases where the *Superannuation Industry (Supervision) Act 1993* does not so permit, any money that becomes payable by the trustee Board, in respect of such actions is to be paid out of the relevant fund. Where such payments are made, an equivalent amount is paid to the fund from the Consolidated Revenue Fund.

### **Indemnities for the Reserve Bank of Australia and private sector banks**

Under agencies' contracts for transactional banking services, the Australian Government has indemnified the Reserve Bank of Australia and contracted private sector banks. These banks are indemnified against loss and damage arising from error or fraud by the agency, or transactions made by the bank with the authority of the agency.

### **Indemnities relating to other former asset sales, privatisations and IT outsourcing projects**

Ongoing indemnities have been given in respect of a range of asset sales, privatisations and IT outsourcing projects that have been conducted by the Department of Finance and Administration (Finance), and the former Office of Asset Sales and Commercial Support and its predecessors. The probability of an action being made under one of these indemnities diminishes over time. Details of indemnities in respect of the other asset sales and privatisations have been provided in previous Budget and Mid-Year Economic and Fiscal Outlook papers, and previous annual reports for Finance and the Office of Asset Sales and Commercial Support.

Indemnities (including the year they were raised) are still current for: ADI Ltd (1998), Australian Airlines (1991), Australian Industry Development Corporation (1996), Australian Multimedia Enterprise (1997), Australian National Rail Commission and National Rail Corporation Ltd (1997 and 2000), Australian River Co. Ltd (1999), Australian Submarine Corporation Ltd (2000), Australian Technology Group (1986), ComLand Ltd (2004), Bankstown Airport Limited (2002), Camden Airport Ltd (2002), Commonwealth Accommodation and Catering Services (1988), Commonwealth Bank of Australia (1993 to 1996), Commonwealth Funds Management and Total Risk Management (1996 to 1997), Employment National Ltd (2003), Essendon Airport Ltd (2001), Federal Airports Corporation's Airports (1995 to 1997), Home Loans



Insurance Commission Ltd (1996), Health Insurance Commission (2000), Hoxton Park Airport Limited (2002), National Transmission Network (1999), Sydney Airports Corporation Ltd (2001), Telstra (1996 and 1999), Wool International (1999). The Department does not currently expect any action to be taken in respect of these indemnities.

### **Industrial Waste Commission (IWC) Cleanaway**

The Australian Government has commenced proceedings in the Supreme Court of NSW against Brambles Holdings Ltd (Brambles) seeking declarative relief in relation to a deed of licence between the Australian Government and Brambles for the 'IWC Cleanaway' site at Lucas Heights. The intention of the proceedings is to determine responsibility for contamination and remediation on the site.

### **Telstra Corporation Limited — company, directors and senior executives' indemnities**

Certain indemnities have been provided to Telstra Corporation Limited (Telstra), its directors and selected senior executives in connection with their assistance in the preparation for the Telstra 3 sale of approximately two thirds of the Australian Government's residual shareholding in Telstra. The indemnities cover liabilities that may arise from actions undertaken in support of the Telstra 3 sale.

### **Telstra Corporation Limited – indemnity for unauthorised disclosure of confidential information**

The Australian Government has executed a mutual confidentiality agreement with Telstra Corporation Limited and indemnified Telstra against the unauthorised disclosure or use by the Australian Government of certain confidential information provided during the Telstra 3 sale process for Telstra 3 sale-related purposes.

### **Telstra Sale Company Limited — indemnities**

The Australian Government has indemnified Telstra Sale Company Limited and its officers for all liabilities arising from the Telstra 3 offer document, the sale process or the issue of instalment receipts and the performance of its responsibilities under the Telstra 3 instalment receipt trust deed. These indemnities are subject to limitations in the case of bad faith, malice, fraud or recklessness on the part of the indemnified parties.

The Australian Government has also indemnified Telstra 3 instalment receipt holders for all losses or damages which they may suffer as a result of a breach by Telstra Sale Company Limited as instalment receipt trustee of its obligations under the Telstra 3 instalment receipt trust deed, except to the extent that the breach by the trustee is a result of the negligence, bad faith or wilful default of the instalment receipt holder.

## **Foreign Affairs and Trade**

### **Export Finance and Insurance Corporation — board members' and senior management indemnities**

The Australian Government has provided certain indemnities to the Export Finance and Insurance Corporation (EFIC) board members and senior management to protect against civil claims and legal expenses for unsuccessful criminal claims relating to the implementation of EFIC's alliance/divestment of its short-term export credit insurance business.

## **Health and Ageing**

### **Australian Red Cross Society — indemnities**

The Deed of Agreement between the Australian Red Cross Society (ARCS) and the National Blood Authority in relation to the operation of the Australian Red Cross Blood Society (ARCBS) includes certain indemnities and a limit of liability in favour of ARCS. These cover a defined set of potential business, product and employee risks and liabilities arising from the operations of ARCBS. The indemnities and limitation of liability only operate in the event of the expiry and non-renewal, or the earlier termination, of the Deed of Agreement, and only within a certain scope. They are also subject to appropriate limitations and conditions including in relation to mitigation, contributory fault, and the process of handling relevant claims.

### **Blood and blood products liability cover**

A National Managed Fund (NMF) has been established which pools the liability risks associated with the supply of blood and blood products by the Australian Red Cross Blood Service (ARCBS) between the Australian Government, the ARCBS and the States and Territories. The NMF is covered by a Memorandum of Understanding (MoU) between the Australian Government, States and Territories, and the ARCBS, and provides for liabilities incurred by ARCBS where other available mitigation or cover is not available. The MoU provides for the parties to contribute to the NMF taking into account potential claims payments; the level of funds in the NMF and investment earnings; and a prudential allowance for liabilities incurred but not yet the subject of claims. If there are insufficient funds to cover claim costs, the Jurisdictional Blood Committee (JBC) considers a report provided by the National Funds Manager to determine the level of funds required. Each party must contribute funds, as determined by JBC, in accordance with allocation provisions prevailing at the time. Under the MoU, the blood and blood products liability cover for the ARCBS remains in force until all parties agree to terminate the arrangements from an agreed date.

## **CSL Limited**

CSL Limited is indemnified against claims made by persons who contract specified infections from specified products and against employees contracting asbestos-related injuries. CSL Limited has unlimited cover for most events that occurred before the sale of CSL Limited on 1 January 1994, but has more limited cover for a specified range of

events that occurred during the operation of the Plasma Fractionation Agreement from 1 January 1994 to 31 December 2004. Where alternative cover was not arranged by CSL Limited, the Australian Government may have a contingent liability. Given the open-ended nature of some of the indemnities, damages and risk cannot be quantified. No similar indemnities have been given to CSL Limited in the new Plasma Products Agreement operating from 1 January 2005.

### **Guarantee Scheme for aged care accommodation bonds**

A Guarantee Scheme has been established through the *Aged Care (Bond Security) Act 2006* and *Aged Care (Bond Security) Levy Act 2006*. Under the Guarantee Scheme, if a provider becomes insolvent or bankrupt and is unable to repay outstanding bond balances to aged care residents, the Australian Government will step in and repay the bond balances owing to each resident. In return, residents will assign their right to the Australian Government to pursue the defaulting provider to recover the accommodation bond money paid out. In the event the Australian Government cannot recover the full amount from the defaulting provider, it may levy all providers holding accommodation bonds to recoup the shortfall. It is not possible to quantify the Australian Government's contingent liability in the event that the Guarantee Scheme is activated.

### **Indemnity relating to smallpox vaccine**

On 12 December 2002, the Australian Government took possession of an initial shipment of 50,000 doses of smallpox vaccine. This vaccine, to be used only in emergency situations, was the only type available for large-scale purchase and was manufactured using older style technology. The Government granted an indemnity to the manufacturer covering possible adverse events that could result from the use of the vaccine.

### **Medical Indemnity Exceptional Claims Scheme**

In May 2003, the Prime Minister announced the Medical Indemnity Exceptional Claims Scheme was to assume liability for 100 per cent of any damages payable against a doctor that exceeds a specified level of cover provided by that doctor's medical indemnity insurer, currently \$20 million. These arrangements will apply to payouts related to either a single large claim or to multiple claims that in aggregate exceed the cover provided by the doctor's medical indemnity insurer, and will apply to claims notified under contracts-based cover since 1 January 2003.

## **Immigration and Citizenship Affairs**

### **Immigration detention services**

A contract with GSL (Australia) Pty Ltd commenced on 1 September 2003. While this contract requires GSL to indemnify the Australian Government for certain claims of losses, the Australian Government has agreed to share the risk. Subject to certain conditions, GSL has been indemnified against claims of losses above a fixed amount to

## *Statement 11: Statement of Risks*

a capped amount. Where claims exceed the cap in any financial year, responsibility for the excess reverts to GSL.

A further limitation of liability has been provided in the contract in relation to loss or damage to Australian Government property or equipment as a result of the actions of detainees. Under the contract, GSL's liability for detainee damage is subject to an annual limit, unless claims of losses exceed an agreed cap.

### **Systems development – liability limit**

The Department of Immigration and Citizenship (DIAC) has entered into a contract with IBM Australia (IBM) for the provision of systems development services for the department. The arrangement facilitates the delivery of the new departmental programme Systems for People. DIAC has agreed to limit IBM's liability to an overall maximum of \$150 million for certain causes of action.

## **Industry, Tourism and Resources**

### **Liability for costs incurred in a National Liquid Fuel Emergency**

The Australian Government has responsibility for the *Liquid Fuel Emergency Act 1984* (*the Act*) administered by the Minister for Industry, Tourism and Resources. To coordinate Australian and State and Territory use of the powers under the Act in a national liquid fuel emergency, the Australian and State and Territory Governments have entered into an inter-governmental agreement (IGA). The IGA contains three areas where the Australian Government may incur expenses in the unlikely event of a national liquid fuel emergency. These relate to the direct costs of managing such an emergency, the potential for the Australian Government to reimburse the State and Territory Governments for the implementation costs of their response and the potential for compensation arising to industry from Australian Government directions under the Act.

### **Liability for damages caused by space activities**

Under the United Nations Convention on International Liability for Damage Caused by Space Objects, the Australian Government is liable to pay compensation for damage caused to nationals of other countries by space objects launched from, or by, Australia. The Australian Government requires the responsible party for a space activity approved under the *Space Activities Act 1998* to insure against liability for damage to third parties for an amount not less than the maximum probable loss, up to a maximum of \$750 million. Under the Space Activities Act, the Australian Government also accepts liability for damage suffered by Australian nationals, to a maximum value of \$3 billion above the insured level.

### **Liability for damages caused by Kistler space activities**

In accordance with the United Nations Convention on International Liability for Damage Caused by Space Objects, an agreement was signed in 1998, amended in 1999,

between the Department of Industry, Tourism and Resources, Kistler Woomera Pty Ltd and Spaceport Woomera Pty Ltd to support the launching of the K-1 Aerospace Vehicle and satellites into space from Australia. Kistler Woomera Pty Ltd received a major contract from NASA in August 2006, and launches are expected to commence at Woomera in South Australia from 2008. Under the agreement, the Australian Government provides indemnity support to a maximum of US\$1.5 billion (estimated value A\$1.9 billion), indexed for inflation above the level of insurance cover obtained under the requirements of the agreement.

### **Snowy Hydro Limited — directors' indemnities**

The Australian Government has, together with the co-shareholder governments of New South Wales and Victoria, indemnified the members of the board of Snowy Hydro Limited for liabilities arising from entering into agreements to implement corporatisation of the Snowy Mountains Hydro-Electric Scheme, and from liabilities to Snowy Hydro Limited at corporatisation. The indemnity will apply to liabilities arising within five years of corporatisation, and for which a claim is notified to the governments within eleven years of the corporatisation date of 28 June 2002.

### **Snowy Hydro Limited — water releases**

The Australian, New South Wales and Victorian governments have indemnified Snowy Hydro Limited for liabilities arising from water releases in the Snowy River below Jindabyne Dam, where these releases are in accordance with the water licence and related regulatory arrangements agreed between the three governments. The indemnity will apply to liabilities for which a claim is notified within 20 years from 28 June 2002.

The Australian, New South Wales and Victorian governments will provide financial support to the company, if this is necessary, to avoid the company breaching its loan covenants to fund the cost of civil works required to address a cold-water pollution offence. The undertaking applies for seven years from 28 June 2002.

## **Transport and Regional Services**

### **Assumed residual liabilities of the Australian National Railways Commission**

The Australian Government under Schedule 3 of the *Australian National Railways Commission Sale Act 1997* assumed the residual liabilities of the Australian National Railways Commission. A writ of summons was filed in the High Court of Australia on 20 August 2004 and a statement of claim on behalf of 24 other plaintiffs was filed in the District Court of South Australia on 22 September 2005. The writ sought unspecified damages for personal injuries as a result of exposure to lead and other particles from trains carrying lead and zinc ore.

### **Maritime Industry Finance Company Limited — board members' indemnity**

Indemnities for Maritime Industry Finance Company Limited board members have been provided to protect them against civil claims relating to their employment and conduct as directors.

### **Tripartite deeds relating to the sale of federal leased airports**

Tripartite deeds apply to 12 federal leased airports (Adelaide, Alice Springs, Bankstown, Brisbane, Canberra, Coolangatta, Darwin, Launceston, Melbourne, Perth, Sydney and Townsville). The tripartite deeds between the Australian Government, the airport lessee company and financiers provide for limited step-in rights for the financiers in circumstances when the airport lease is terminated to enable the financiers to correct the circumstances that triggered such a termination event. These contingent liabilities are considered to be unquantifiable and remote.

## **Treasury**

### **Housing Loans Insurance Corporation — guarantee**

The Australian Government sold the Housing Loans Insurance Corporation (HLIC) on 12 December 1997 and has assumed all residual contingencies. The guarantee relates essentially to the HLIC's contracts of mortgage insurance and any borrowings approved by the Treasurer up to the time of sale. The principal amount covered by the guarantee and the balances outstanding are unable to be reliably measured.

### **Terrorism insurance — commercial cover**

The *Terrorism Insurance Act 2003* established a scheme for replacement terrorism insurance covering damage to commercial property including associated business interruption and public liability. The Australian Reinsurance Pool Corporation (ARPC) uses reinsurance premiums paid by insurers to meet its administrative expenses and to build a fund and purchase reinsurance to help meet future claims. In September 2006, the Government announced that, as a result of the review of the scheme, the fund would no longer be limited to \$300 million. The Commonwealth guarantees to pay any liabilities of the ARPC, but the Treasurer must declare a reduced payout rate to insured parties if the Commonwealth's liability would otherwise exceed \$10 billion.

# STATEMENT 12: TRENDS IN PUBLIC SECTOR FINANCES

This statement discusses trends in the fiscal balance, cash surplus, balance sheet data (net debt and net worth) and net interest payments for the non-financial public sector at the Australian Government and State/local levels of government, and together at the consolidated level. These indicators are discussed in greater detail in **Statement 8**.

This statement provides a broader context in which to consider developments in the Australian Government's Budget.

For further information on the data used in the charts and tables in this statement, see Appendix B: Data. This statement uses the convention that references to the States include the Territories, and that the combined State and local government sector is denoted as the State/local sector and includes Territory governments unless otherwise stated.

<b>Size and structure of the public sector</b> .....	<b>12-3</b>
<b>Fiscal balance</b> .....	<b>12-4</b>
<b>Cash surplus</b> .....	<b>12-9</b>
General government sector.....	12-9
Public non-financial corporations sector .....	12-9
Non-financial public sector .....	12-11
Receipts and payments.....	12-12
<b>Net debt</b> .....	<b>12-14</b>
<b>Net worth</b> .....	<b>12-17</b>
<b>Net interest payments</b> .....	<b>12-18</b>
<b>Appendices</b>	
Appendix A: Supplementary cash tables .....	12-19
Appendix B: Data .....	12-23





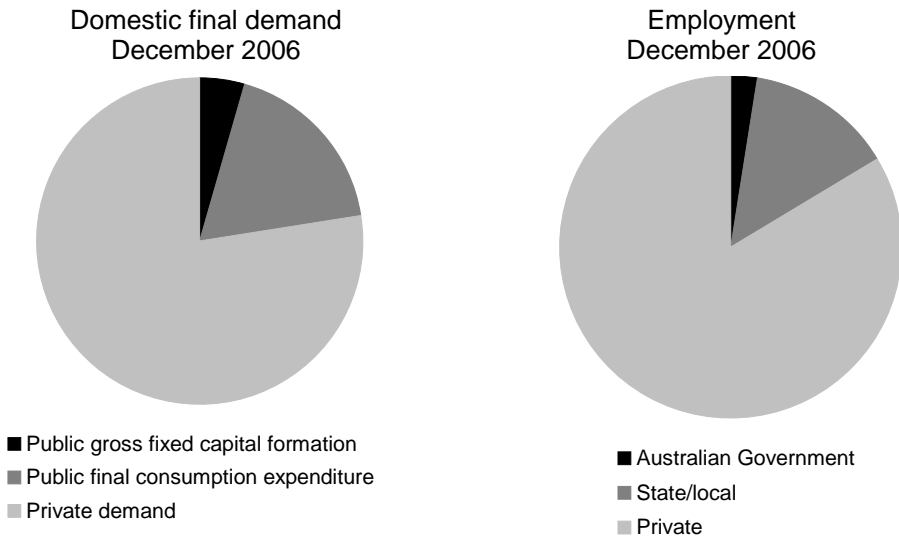
# STATEMENT 12: TRENDS IN PUBLIC SECTOR FINANCES

## SIZE AND STRUCTURE OF THE PUBLIC SECTOR

The size and structure of Australia's public sector provides a useful context for interpreting trends in the total public sector. The total public sector<sup>1</sup> constitutes a significant portion of the Australian economy (around 22 per cent of domestic final demand).

Domestic final demand (as shown in Chart 1) is made up of public final demand (which comprises public gross fixed capital formation and public final consumption expenditure) and private demand (consisting of private gross fixed capital formation and private final consumption expenditure). The Australian Government constitutes 38 per cent of public final demand, while the State/local level of government accounts for 62 per cent.

**Chart 1: Contribution of public and private sectors**



Sources: ABS cat. nos. 6248.0, 6202.0 and 5206.0.

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1 The total public sector includes the non-financial public sector (comprised of the general government sector and the public non-financial corporations sector) and the public financial corporations sector for the Australian Government and State/local levels of government.

## *Statement 12: Trends in Public Sector Finances*

There are significant differences in the roles and responsibilities of the two main levels of government. Major components of the Australian Government's expenses include transfer payments in relation to social security and welfare, and defence expenditure. Transfer payments, such as Australian Government income support payments, are not included in the Australian Government public final demand. Rather, these payments, along with payments that the Australian Government makes to the States and the private sector to assist in funding important services like education and health, are reflected in either State/local public final demand or private demand.

In terms of employment, the total public sector employs approximately 16 per cent of wage and salary earners (Chart 1). The State/local sector accounts for around 13.5 per cent of all wage and salary earners and for 84 per cent of total public sector wage and salary earners. The Australian Government accounts for around 2.5 per cent of all wage and salary earners and for 16 per cent of total public sector wage and salary earners. The State/local sector's larger share reflects that sector's major responsibilities for service delivery in the areas of education, health, transport and public order and safety.

### **FISCAL BALANCE**

As outlined in Figure 1 of Statement 8, the total public sector is made up of the non-financial public sector (NFPS) and the public financial corporations sector. The NFPS is comprised of the general government sector and the public non-financial corporations (PNFC) sector.

The general government sector forms the majority of the NFPS (particularly in terms of revenue and expenses). The PNFC sector tends to be more important at the State/local level, where most PNFCs are concentrated.

The fiscal balance of the Australian Government general government sector is expected to be a surplus of 1.2 per cent of Gross Domestic Product (GDP) in 2006-07 and 0.9 per cent of GDP in 2007-08. The surplus is projected to remain at around 1 per cent of GDP over the forward estimates.

After being in surplus in recent years, the State/local general government sector is expected to record a fiscal deficit of 0.5 per cent of GDP in 2006-07 and remain in deficit over the forward estimates. The forecast deficits reflect smaller operating surpluses and high levels of planned capital investment. Further detail on State general government sector operating and fiscal balances is contained in Budget Paper No. 3, *Federal Financial Relations 2007-08*.

The consolidated<sup>2</sup> PNFC sector fiscal balance is expected to be in deficit by 1.1 per cent of GDP in 2006-07 and 2007-08. The increase in the PNFC deficit in recent years mainly reflects increased capital expenditure by PNFCs at the State/local level.

PNFC revenue and expenses have decreased significantly as a share of GDP since the 1990s. This is partly attributable to the privatisation of PNFCs by both the Australian and State/local governments. For example, Telstra no longer forms part of the PNFC sector following the further sell down of the Australian Government's interest in Telstra in 2006-07.

Fiscal deficits at the State/local level are also expected to result in the consolidated NFPS being in deficit in 2006-07 and 2007-08.

Tables 1, 2 and 3 show general government sector, PNFC and NFPS fiscal balance data by level of government.

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2 When combined, the Australian Government, State/local governments and universities are referred to as the 'consolidated public sector'.

**Table 1: General government fiscal balance by level of government (per cent of GDP)<sup>(a)</sup>**

	Australian Government			State/local			Consolidated		
	Revenue	Expenses	Fiscal balance	Revenue	Expenses	Fiscal balance	Revenue	Expenses	Fiscal balance
1996-97	26.0	26.7	-0.8	na	na	na	na	na	na
1997-98	25.4	25.7	-0.3	na	na	na	na	na	na
1998-99	25.0	24.1	0.6	17.1	16.4	0.2	37.1	35.4	0.9
1999-00	25.9	24.3	1.8	16.7	15.9	0.3	37.7	35.2	2.1
2000-01	23.5	22.9	0.8	16.6	16.2	-0.2	37.3	36.2	0.7
2001-02	22.1	22.7	-0.5	16.5	16.0	0.0	35.8	35.7	-0.5
2002-03	22.5	21.9	0.6	16.6	15.9	0.2	36.6	35.3	0.9
2003-04	22.4	21.7	0.6	16.8	15.8	0.4	37.0	35.3	1.0
2004-05	23.0	21.8	1.2	16.8	15.8	0.4	37.5	35.4	1.6
2005-06	23.0	21.3	1.5	16.8	15.7	0.4	37.7	34.7	2.0
2006-07(e)	22.8	21.5	1.2	16.2	15.7	-0.5	37.0	35.0	0.7
<b>2007-08(e)</b>	<b>22.5</b>	<b>21.5</b>	<b>0.9</b>	<b>15.8</b>	<b>15.3</b>	<b>-0.4</b>	<b>36.3</b>	<b>34.6</b>	<b>0.6</b>
2008-09(p)	22.8	21.6	1.0	15.7	15.2	-0.4	36.6	34.7	0.7
2009-10(p)	23.1	21.8	1.2	15.6	15.1	-0.2	36.8	34.8	1.0
2010-11(p)	22.9	21.8	1.1	na	na	na	na	na	na

(a) The fiscal balance is equal to revenue less expenses less net capital investment. Net capital investment is not shown in this table.

(e) Estimates.

(p) Projections.

na Data not available.

**Table 2: Public non-financial corporations fiscal balance by level of government (per cent of GDP)<sup>(a)</sup>**

	Australian Government			State/local			Consolidated		
	Revenue	Expenses	Fiscal balance	Revenue	Expenses	Fiscal balance	Revenue	Expenses	Fiscal balance
1996-97	5.0	4.8	-0.1	na	na	na	na	na	na
1997-98	5.1	4.7	0.4	na	na	na	na	na	na
1998-99	4.6	4.3	-0.1	6.1	6.1	-0.4	10.6	10.4	-0.6
1999-00	4.0	3.6	0.2	5.7	5.4	0.3	9.6	9.1	0.5
2000-01	3.8	3.6	-0.1	5.5	5.2	0.2	9.2	8.8	0.1
2001-02	3.6	3.4	0.1	4.7	4.5	-0.2	8.3	8.0	-0.1
2002-03	3.1	2.9	0.3	4.5	4.4	-0.3	7.7	7.4	-0.1
2003-04	3.0	2.8	0.3	4.5	4.3	-0.3	7.6	7.2	0.0
2004-05	3.0	2.8	0.2	4.3	4.2	-0.4	7.4	7.0	-0.3
2005-06	2.9	3.1	-0.3	4.4	4.3	-0.7	7.4	7.4	-1.0
2006-07(e)	1.5	1.6	-0.1	4.3	4.2	-1.0	5.8	5.8	-1.1
<b>2007-08(e)</b>	<b>0.6</b>	<b>0.6</b>	<b>-0.1</b>	<b>4.2</b>	<b>4.2</b>	<b>-1.0</b>	<b>4.9</b>	<b>4.9</b>	<b>-1.1</b>

(a) The fiscal balance is equal to revenue less expenses less net capital investment. Net capital investment is not shown in this table.

(e) Estimates.

na Data not available.

**Table 3: Non-financial public sector fiscal balance by level of government (per cent of GDP)<sup>(a)</sup>**

	Australian Government			State/local			Consolidated		
	Revenue	Expenses	Fiscal balance	Revenue	Expenses	Fiscal balance	Revenue	Expenses	Fiscal balance
1996-97	na	na	-0.8	na	na	na	na	na	na
1997-98	na	na	0.1	na	na	na	na	na	na
1998-99	28.9	27.8	0.5	20.8	20.1	-0.2	44.7	42.7	0.3
1999-00	29.3	27.1	2.0	20.5	19.5	0.6	44.8	41.6	2.6
2000-01	26.6	25.8	0.7	20.3	19.7	0.0	44.1	42.6	0.7
2001-02	25.1	25.5	-0.4	19.5	18.8	-0.3	41.7	41.3	-0.6
2002-03	24.9	24.2	0.9	19.4	18.7	-0.1	42.0	40.4	0.8
2003-04	24.7	23.8	0.8	19.5	18.3	0.2	42.1	40.0	1.1
2004-05	25.4	24.0	1.4	19.5	18.3	0.0	42.6	40.1	1.3
2005-06	25.2	23.7	1.3	19.4	18.2	-0.3	42.6	39.7	1.0
2006-07(e)	24.0	22.7	1.0	19.1	18.6	-1.5	41.2	39.1	-0.4
<b>2007-08(e)</b>	<b>23.0</b>	<b>21.9</b>	<b>0.8</b>	<b>18.7</b>	<b>18.2</b>	<b>-1.4</b>	<b>39.8</b>	<b>38.0</b>	<b>-0.5</b>

(a) The fiscal balance is equal to revenue less expenses less net capital investment. Net capital investment is not shown in this table.

(e) Estimates.

na Data not available.

## **CASH SURPLUS**

### **General government sector**

The Australian Government general government sector has been in surplus since 1997-98, with the exception of a small cash deficit of 0.1 per cent of GDP in 2001-02.

Panels A and C of Chart 2 show the large contribution of past Australian Government general government sector cash deficits to the consolidated NFPS cash deficit. Panel A of Chart 2 also illustrates the improvement in the Australian Government general government sector balance, culminating in the strong surplus outcomes of recent years.

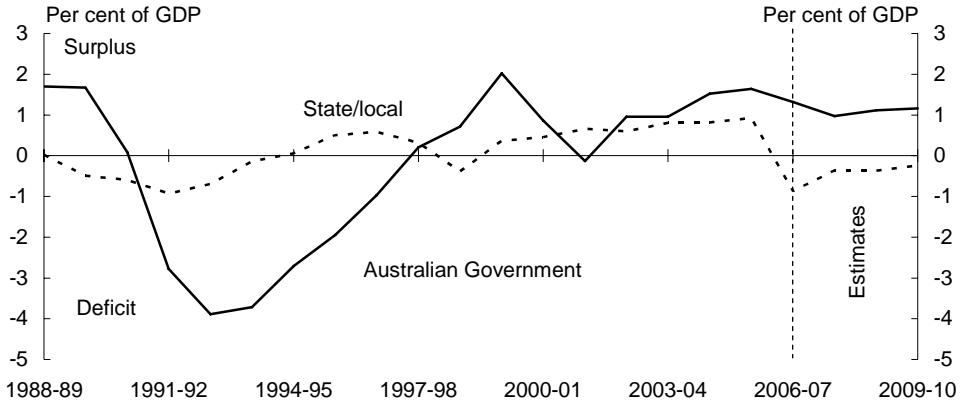
Panel A of Chart 2 also shows the sustained improvement in State/local general government sector balances through the mid-1990s. The State/local sector maintained a cash surplus each year from 1994-95 to 2005-06, with the exception of 1998-99. This improvement was initially due to payments restraint, helped by lower debt servicing charges and, more recently, to the strong growth in revenues related to the property market and GST. In 2006-07, the sector is expected to record a deficit of 0.9 per cent of GDP. The size of the estimated State/local cash deficit in 2006-07 is affected by a one-off \$7.2 billion contribution from New South Wales' General Government Liability Management Fund towards defined benefit superannuation schemes. In 2007-08 the State/local sector is forecast to record a deficit of around 0.4 per cent of GDP.

### **Public non-financial corporations sector**

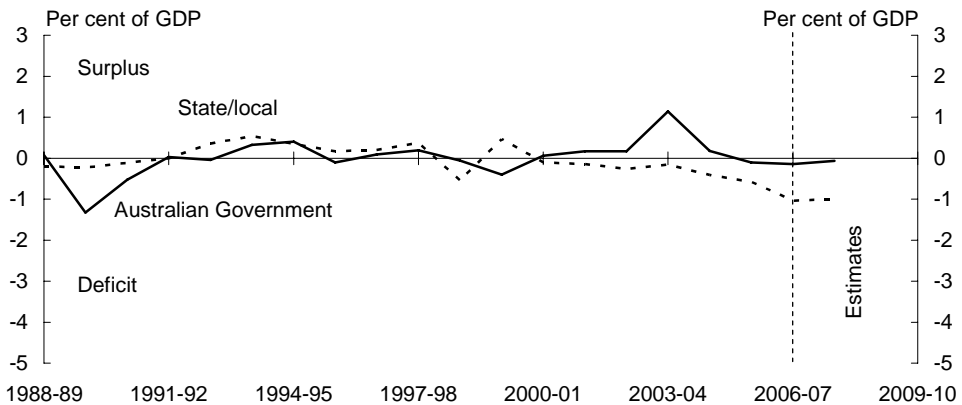
As shown in Chart 3, the consolidated PNFC sector maintained a cash surplus position through much of the 1990s, but has recorded deficits in recent years. A deficit of 1.2 per cent of GDP is estimated for the consolidated PNFC sector in 2006-07 and a deficit of 1.1 per cent of GDP is estimated for 2007-08, mainly reflecting the impact of large capital expenditure programmes by State/local PNFCs.

**Chart 2: Cash surplus by sector and level of government**

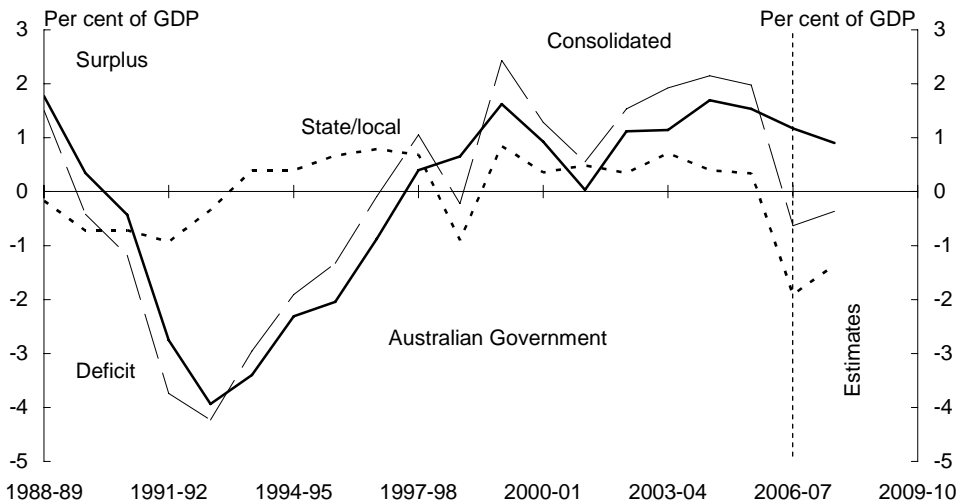
**A: General government sector**



**B: Public non-financial corporations**



**C: Non-financial public sector**



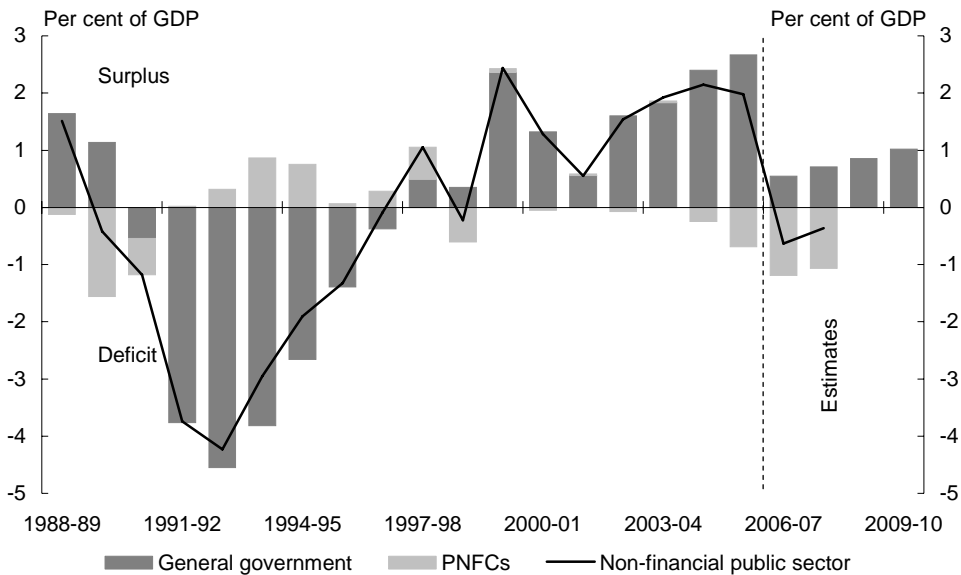


## Non-financial public sector

It is estimated that the consolidated NFPS will record cash deficits of 0.6 per cent and 0.4 per cent of GDP in 2006-07 and 2007-08 respectively, with forecast deficits at the State/local level higher than the surpluses at the Australian Government level.

Chart 3 illustrates that the consolidated NFPS was generally in deficit during the 1990s, primarily reflecting Australian Government general government sector cash deficits in the early to mid-1990s. The consolidated NFPS deficit peaked at 4.2 per cent of GDP in 1992-93 before moving into a surplus position in 1997-98. The deficit in 1998-99 was the result of one-off increases in State funding of superannuation liabilities.

**Chart 3: Consolidated non-financial public sector cash surplus by sector<sup>(a)</sup>**



(a) Data for the consolidated PNFC and NFPS are only available to 2007-08.

## Receipts and payments

Chart 4 shows trends in general government sector cash receipts and payments at the Australian Government, State/local and consolidated levels, which underpin the developments in cash balances discussed previously. The general government sector is an appropriate focus for an assessment of public sector receipts and payments as it is the sector that collects taxes and provides non-market public services. The general government sector also accounts for the majority of NFPS receipts and payments.

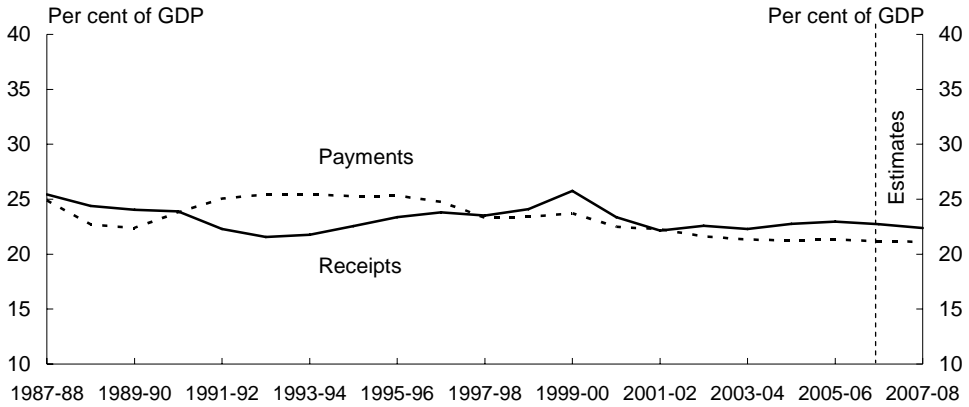
Estimates of Australian Government receipts and payments in Panel A of Chart 4 are net of GST receipts and show a decline in 2000-01 with the introduction of *The New Tax System*. In addition, consolidated general government receipts fell from 1999-2000 due to the Australian Government's tax reforms, which included significant personal income tax cuts and the abolition of a range of taxes at the State level, including financial institutions duty, stamp duty on quoted marketable securities and bank account debits tax.

The increases in receipts and payments in 1998-99 for the State/local sector and in 1999-2000 for the Australian Government, shown in Panels B and A of Chart 4 respectively, were predominantly due to the move to an accrual accounting framework and the subsequent 'grossing' up of cash receipts and payments, whereas prior to this, some cash receipts were netted off payments.

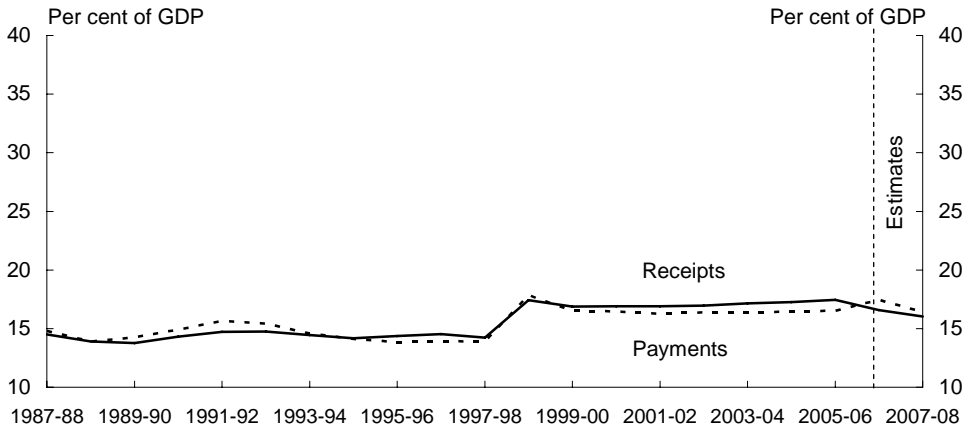
The PNFC sector is an important provider of economic infrastructure and contributes significant revenue to the general government sector, mainly in the form of dividends. State/local governments account for the majority of total PNFC sector payments, reflecting State responsibility for infrastructure and service provision in areas such as electricity, gas, water and public transport.

**Chart 4: General government sector receipts and payments by level of government**

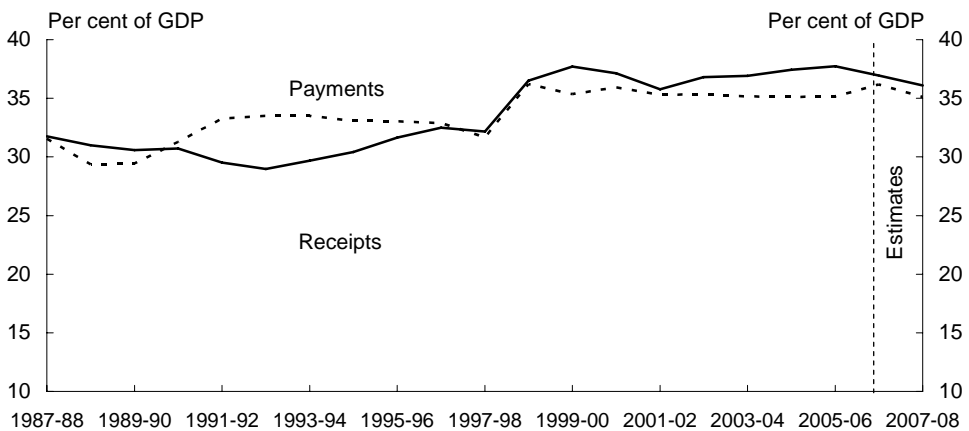
**A: Australian Government**



**B: State/local**



**C: Consolidated**



## **NET DEBT**

Chart 5 shows a consistent decline in consolidated general government sector net debt as a share of GDP from a peak of 24.2 per cent of GDP in 1994-95. The consolidated general government sector eliminated net debt in 2004-05 and its net debt levels are forecast to remain below zero over the forward estimates.

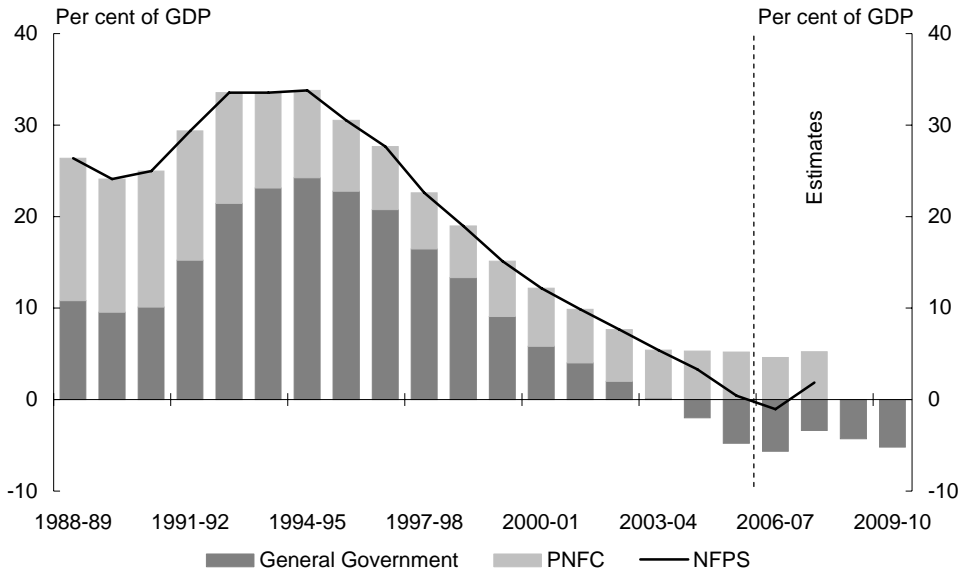
Charts 3 and 5 show the broad correlation between cash deficits and net debt levels. The financing of Australian Government cash deficits resulted in a substantial increase in general government sector net debt as a share of GDP over the early 1990s.

Chart 5 also shows the improvement in PNFC sector net debt as a share of GDP since the late 1980s, reflecting lower levels of capital expenditure, improved efficiency and privatisations. This moderated the deterioration in NFPS net debt as a share of GDP in the first half of the 1990s.

The improvement in NFPS net debt primarily reflects both the Australian Government and the State/local sector moving back into budget surpluses and the application of privatisation proceeds to debt retirement at both the Australian Government and State/local government levels.

PNFC privatisations during the 1990s occurred in two main sectors – electricity and gas (such as Victorian and South Australian electricity assets) and transport and communications (such as Telstra). Proceeds of asset sales have largely been used to reduce, or contain, the growth of general government net debt, resulting in ongoing savings in public debt interest.

**Chart 5: Consolidated non-financial public sector net debt by sector  
(as at end of financial year)<sup>(a)</sup>**



(a) Data for the consolidated PNFC and NFPS are only available to 2007-08.

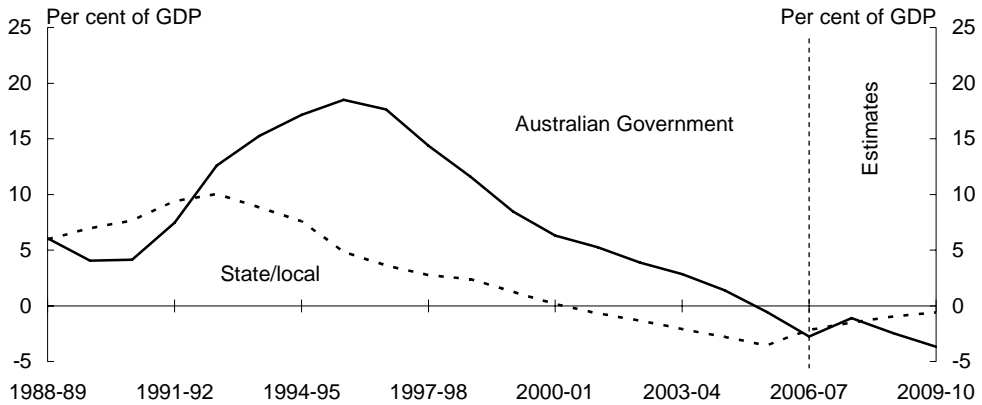
As shown in Panel A of Chart 6, Australian Government general government sector net debt as a share of GDP grew from low levels in the late 1980s to a peak of 18.5 per cent in 1995-96. Since then, successive surpluses and asset sales (most notably the sale of Telstra) have improved Australian Government general government sector net debt, with net debt being eliminated in 2005-06.<sup>3</sup> Australian Government PNFC sector net debt is expected to be eliminated in 2006-07.

In contrast, State/local general government sector net debt grew more modestly in the early 1990s before declining from a peak of 10 per cent of GDP in 1992-93 to below zero from 2001-02 (Panel A of Chart 6). The State/local PNFC sector also experienced an improvement in net debt levels during the 1990s (Panel B of Chart 6). However, the States continue to hold significant net debt in the PNFC sector. State/local PNFC net debt is forecast to grow from 4.2 per cent of GDP in 2005-06 to 5.3 per cent of GDP in 2007-08. Total State/local NFPS net debt has also remained positive and is forecast to increase from 0.7 per cent of GDP in 2005-06 to 3.8 per cent of GDP in 2007-08 (Panel C of Chart 6). The States are forecasting further increases in net debt over the forward estimates as they borrow to fund their capital expenditure programmes. For further information, see Budget Paper No. 3, *Federal Financial Relations 2007-08*.

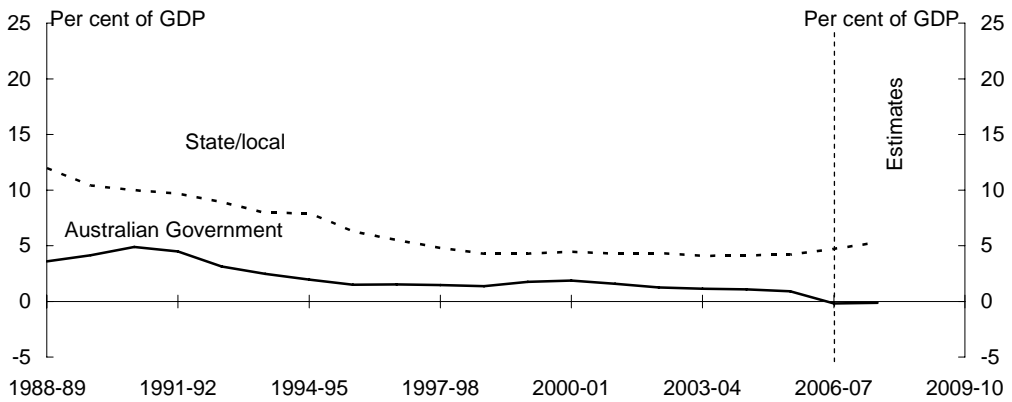
<sup>3</sup> The forecast level of Australian Government net debt in 2007-08 is a result of an assumption that the Future Fund will increasingly be invested in equities, which are not included in the calculation of net debt.

**Chart 6: Net debt by sector and level of government (as at end of financial year)**

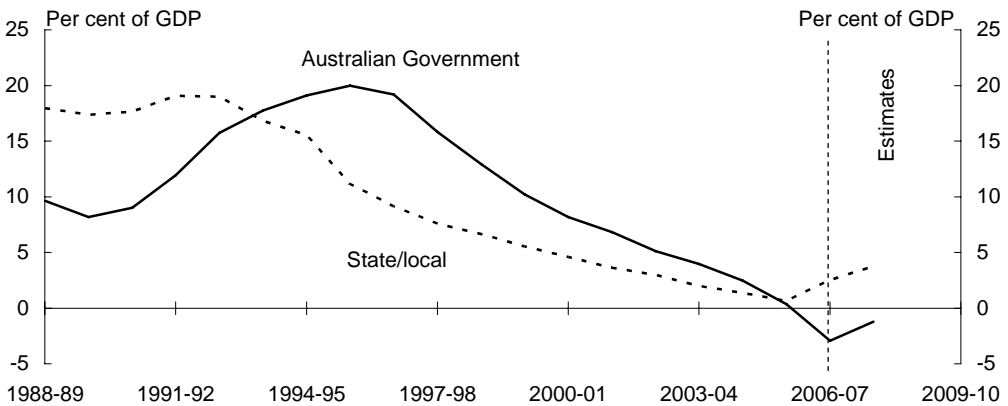
**A: General government sector**



**B: Public non-financial corporations**



**C: Non-financial public sector**



## NET WORTH

The State/local general government sector is estimated to have a positive net worth of 61.1 per cent of GDP in 2007-08. State/local net worth has increased in nominal terms each year since 1998-99, but has increased only marginally as a proportion of GDP. The Australian Government general government sector has historically recorded negative net worth. This difference primarily reflects the significant funding provided by the Australian Government to the States and to local government for capital works, with the resultant assets recorded in the balance sheets of the State and local governments. There has been a consistent improvement in the net worth of the Australian Government general government sector since the late 1990s and net worth is projected to be positive by 2008-09, reflecting the contribution of continued budget surpluses and the expectation of higher average investment returns through the Future Fund.

**Table 4: General government sector net worth by level of government (as at end of financial year)**

	Australian Government(a)		State/local		Consolidated	
	Per cent		Per cent		Per cent	
	\$b	of GDP	\$b	of GDP	\$b	of GDP
1996-97	-74.4	-13.6	na	na	na	na
1997-98	-68.5	-11.9	na	na	na	na
1998-99	-76.2	-12.5	362.7	59.7	304.6	50.1
1999-00	-40.6	-6.3	390.9	60.6	369.5	57.3
2000-01	-43.3	-6.3	405.6	58.9	382.4	55.5
2001-02	-48.4	-6.6	427.9	58.2	401.8	54.6
2002-03	-53.3	-6.8	470.1	60.1	440.1	56.3
2003-04	-39.6	-4.7	515.3	61.3	500.3	59.5
2004-05	-30.3	-3.4	573.3	63.9	569.3	63.5
2005-06	-22.8	-2.4	609.6	63.1	615.8	63.7
2006-07(e)	-10.9	-1.1	639.0	61.9	659.2	63.8
<b>2007-08(e)</b>	<b>-0.6</b>	<b>-0.1</b>	<b>670.7</b>	<b>61.1</b>	<b>703.1</b>	<b>64.1</b>
2008-09(p)	14.1	1.2	na	na	na	na
2009-10(p)	29.1	2.4	na	na	na	na
2010-11(p)	44.1	3.5	na	na	na	na

(a) There is a break in the Australian Government net worth series between 1998-99 and 1999-2000. Data up to 1998-99 are sourced from the Commonwealth's Consolidated Financial Statements based on Australian Accounting Standards. Data beginning in 1999-2000 are based on the Government Finance Statistics (GFS) framework. For the general government sector, the major change across the break in the series is an improvement in net worth. This is primarily due to the move from valuing investments in public corporations at historic cost to current market value (calculated using the share price for listed corporations). This is partly offset by defence weapons platforms no longer being recorded as assets.

(e) Estimates.

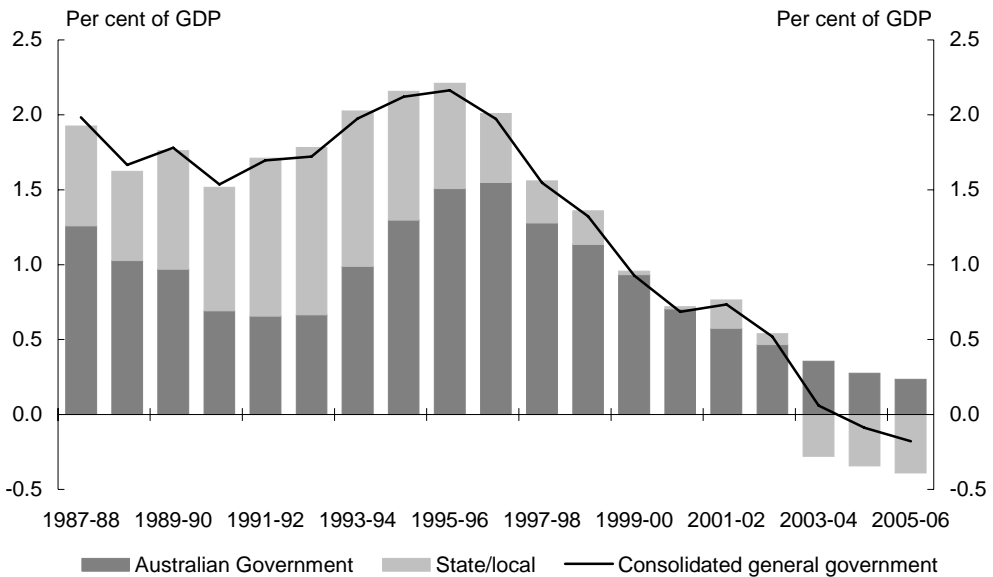
(p) Projections.

na Data not available.

## NET INTEREST PAYMENTS

Consolidated general government sector net interest payments peaked in 1995-96 at 2.2 per cent of GDP due to the increased level of Australian Government general government sector net debt. Consolidated general government sector net interest payments were -0.2 per cent of GDP in 2005-06 due to reduced Australian and State/local general government sector net debt since 1995-96 and lower interest rates in recent years.

**Chart 7: General government sector net interest payments**





## APPENDIX A: SUPPLEMENTARY CASH TABLES

**Table A1: Consolidated cash receipts, payments and cash surplus by institutional sector as a per cent of GDP**

	General government			Public non-financial corporations			Non-financial public sector		
	Receipts	Payments	Cash surplus(a)	Receipts	Payments	Cash surplus	Receipts	Payments	Cash surplus(a)
1988-89	31.0	29.3	1.6	3.7	5.2	-0.1	33.7	33.6	1.5
1989-90	30.6	29.4	1.1	3.6	6.5	-1.6	33.1	34.8	-0.4
1990-91	30.7	31.3	-0.5	3.7	5.8	-0.6	33.2	35.8	-1.2
1991-92	29.5	33.3	-3.8	3.5	5.3	0.0	31.7	37.2	-3.7
1992-93	29.0	33.5	-4.5	3.5	4.8	0.3	31.1	37.1	-4.2
1993-94	29.7	33.5	-3.8	3.7	4.2	0.9	31.8	36.2	-3.0
1994-95	30.4	33.1	-2.7	3.3	4.4	0.7	32.3	36.0	-1.9
1995-96	31.6	33.0	-1.4	2.9	4.4	0.1	32.9	35.8	-1.3
1996-97	32.5	32.9	-0.4	3.0	4.0	0.3	33.4	34.9	-0.1
1997-98	32.2	31.7	0.5	2.9	3.6	0.6	33.5	33.7	1.1
1998-99(b)	36.5	36.2	0.3	na	na	-0.6	na	na	-0.2
1999-00(c)	37.7	35.4	2.4	na	na	0.1	na	na	2.4
2000-01	37.1	35.9	1.3	na	na	0.0	na	na	1.3
2001-02	35.8	35.3	0.6	na	na	0.0	na	na	0.6
2002-03	36.8	35.3	1.6	8.5	8.6	-0.1	na	na	1.5
2003-04	36.9	35.2	1.8	8.3	8.2	0.0	42.7	40.7	1.9
2004-05	37.4	35.1	2.4	8.1	8.4	-0.2	43.0	40.8	2.1
2005-06	37.7	35.2	2.7	8.2	8.9	-0.7	43.2	41.3	2.0
2006-07(e)	36.9	36.2	0.5	6.5	7.7	-1.2	41.0	41.5	-0.6
<b>2007-08(e)</b>	<b>36.1</b>	<b>35.1</b>	<b>0.7</b>	<b>5.5</b>	<b>6.5</b>	<b>-1.1</b>	<b>39.5</b>	<b>39.5</b>	<b>-0.4</b>
2008-09(p)	36.3	35.2	0.9	na	na	na	na	na	na
2009-10(p)	36.5	35.3	1.0	na	na	na	na	na	na

(a) Future fund earnings have been excluded from the Australian Government cash surplus.

(b) The increase in general government receipts and payments in 1998-99 is affected by the change from a cash system to an accrual framework by the State/local sector.

(c) The Australian Government sector moved from a cash system to an accrual framework in 1999-00.

(e) Estimates.

(p) Projections.

na Data not available.

**Table A2: Non-financial public sector cash surplus by level of government as a per cent of GDP**

	Australian		
	Government(a)	State/local	Consolidated(a)
1988-89	1.8	-0.2	1.5
1989-90	0.3	-0.7	-0.4
1990-91	-0.4	-0.7	-1.2
1991-92	-2.8	-0.9	-3.7
1992-93	-3.9	-0.3	-4.2
1993-94	-3.4	0.4	-3.0
1994-95	-2.3	0.4	-1.9
1995-96	-2.0	0.7	-1.3
1996-97	-0.9	0.8	-0.1
1997-98	0.4	0.7	1.1
1998-99	0.7	-0.9	-0.2
1999-00	1.6	0.8	2.4
2000-01	0.9	0.4	1.3
2001-02	0.0	0.5	0.6
2002-03	1.1	0.3	1.5
2003-04	1.1	0.7	1.9
2004-05	1.7	0.4	2.1
2005-06	1.5	0.3	2.0
2006-07(e)	1.2	-1.9	-0.6
<b>2007-08(e)</b>	<b>0.9</b>	<b>-1.4</b>	<b>-0.4</b>

(a) Future fund earnings have been excluded from the Australian Government cash surplus.

(e) Estimates.

**Table A3: General government sector net interest payments by level of government**

	Australian Government(a)		State/local	
	\$m	Per cent of GDP	\$m	Per cent of GDP
1973-74	-306	-0.5	451	0.8
1974-75	-267	-0.4	474	0.7
1975-76	-389	-0.5	526	0.6
1976-77	-161	-0.2	555	0.6
1977-78	-106	-0.1	582	0.6
1978-79	126	0.1	609	0.5
1979-80	290	0.2	634	0.5
1980-81	444	0.3	801	0.5
1981-82	475	0.3	785	0.5
1982-83	654	0.4	1,034	0.6
1983-84	1,327	0.6	1,347	0.6
1984-85	2,462	1.1	1,405	0.6
1985-86	3,626	1.4	1,159	0.5
1986-87	4,387	1.6	1,493	0.5
1987-88	4,019	1.3	2,127	0.7
1988-89	3,722	1.0	2,158	0.6
1989-90	3,848	1.0	3,153	0.8
1990-91	2,834	0.7	3,364	0.8
1991-92	2,739	0.7	4,397	1.1
1992-93	2,912	0.7	4,901	1.1
1993-94	4,549	1.0	4,771	1.0
1994-95	6,310	1.3	4,182	0.9
1995-96	7,812	1.5	3,636	0.7
1996-97	8,449	1.5	2,515	0.5
1997-98	7,381	1.3	1,617	0.3
1998-99	6,901	1.1	1,363	0.2
1999-00	6,014	0.9	156	0.0
2000-01	4,855	0.7	106	0.0
2001-02	4,238	0.6	1,390	0.2
2002-03	3,641	0.5	581	0.1
2003-04	2,994	0.4	-2,349	-0.3
2004-05	2,463	0.3	-3,068	-0.3
2005-06	2,265	0.2	-3,772	-0.4
2006-07(e)	175	0.0	na	na
<b>2007-08(e)</b>	<b>-391</b>	<b>0.0</b>	<b>na</b>	<b>na</b>
2008-09(p)	-161	0.0	na	na
2009-10(p)	-1,175	-0.1	na	na
2010-11(p)	-1,051	-0.1	na	na

(a) There is a break in the Australian Government net debt and net interest payments series between 1998-99 and 1999-2000 (the first year of accrual budgeting). Up to 1998-99, Australian Government debt instruments are valued at historic cost. From 1999-2000 onwards, Australian Government debt instruments are valued at market prices, consistent with accrual GFS standards.

(e) Estimates.

(p) Projections.

na Data not available.

**Table A4: Non-financial public sector net debt(a)**

	General government						PNFCs		NFPS	
	Australian Government		State/local		Consolidated		Consolidated		Consolidated	
	\$m	Per cent of GDP	\$m	Per cent of GDP	\$m	Per cent of GDP	\$m	Per cent of GDP	\$m	Per cent of GDP
1987-88	27,359	8.6	24,201	7.6	46,410	14.5	55,293	17.3	101,703	31.9
1988-89	21,982	6.1	21,683	6.0	39,232	10.8	56,363	15.6	95,595	26.4
1989-90	16,121	4.1	27,672	7.0	37,989	9.6	57,794	14.5	95,783	24.1
1990-91	16,936	4.1	31,322	7.7	41,380	10.1	60,745	14.9	102,125	25.0
1991-92	31,132	7.5	39,167	9.4	63,525	15.2	59,011	14.1	122,536	29.4
1992-93	55,218	12.6	44,020	10.0	94,048	21.5	52,878	12.1	146,926	33.5
1993-94	70,223	15.3	40,693	8.8	106,439	23.1	48,021	10.4	154,460	33.6
1994-95	83,492	17.2	37,039	7.6	117,973	24.2	46,482	9.6	164,455	33.8
1995-96	95,831	18.5	24,981	4.8	118,053	22.8	40,135	7.7	158,188	30.5
1996-97	96,281	17.6	19,757	3.6	113,236	20.8	37,748	6.9	150,984	27.7
1997-98	82,935	14.4	15,937	2.8	95,122	16.5	35,371	6.1	130,493	22.6
1998-99	70,402	11.6	14,492	2.4	81,008	13.3	34,240	5.6	115,248	19.0
1999-00	54,538	8.5	7,961	1.2	58,430	9.1	39,146	6.1	97,576	15.1
2000-01	43,465	6.3	989	0.1	40,204	5.8	43,762	6.3	83,966	12.2
2001-02	38,642	5.3	-4,909	-0.7	29,439	4.0	43,265	5.9	72,704	9.9
2002-03	30,375	3.9	-10,404	-1.3	15,580	2.0	44,033	5.6	59,613	7.6
2003-04	23,948	2.8	-17,492	-2.1	1,487	0.2	44,103	5.2	45,590	5.4
2004-05	12,453	1.4	-24,994	-2.8	-17,771	-2.0	47,519	5.3	29,749	3.3
2005-06	-5,337	-0.6	-34,382	-3.6	-46,052	-4.8	50,204	5.2	4,216	0.4
2006-07(e)	-28,444	-2.8	-22,458	-2.2	-58,318	-5.6	47,700	4.6	-10,620	-1.0
<b>2007-08(e)</b>	<b>-12,049</b>	<b>-1.1</b>	<b>-16,537</b>	<b>-1.5</b>	<b>-37,153</b>	<b>-3.4</b>	<b>57,494</b>	<b>5.2</b>	<b>20,339</b>	<b>1.9</b>
2008-09(p)	-28,366	-2.5	-11,007	-1.0	-49,138	-4.3	na	na	na	na
2009-10(p)	-43,887	-3.7	-7,028	-0.6	-61,929	-5.2	na	na	na	na
2010-11(p)	-59,233	-4.7	na	na	na	na	na	na	na	na

(a) Between 1997-98 and 1999-2000 there is a structural shift in the net debt series as jurisdictions moved from the cash GFS framework to the accrual GFS framework. Consistent with this framework, some jurisdictions value net debt at market prices, while other jurisdictions continue to value net debt at historic cost. Australian Government net debt is valued at market prices from 1999-2000.

(e) Estimates.

(p) Projections.

na Data not available.

## APPENDIX B: DATA

The information in this statement is consistent with the Australian Bureau of Statistics (ABS) Government Finance Statistics (GFS) reporting framework for the public sector.

The clear policy intent of the *Intergovernmental Agreement on the Reform of Commonwealth State Financial Relations* is that the GST is collected by the Australian Taxation Office, as an agent for the States, and appropriated to the States. The Australian Government accrual revenue and expenses and cash receipts and payments measures included in this statement therefore differ from ABS GFS measures by treating the GST revenue as State tax revenue. For the Australian Government, this statement uses the underlying cash balance, which excludes estimated future fund earnings.

Data are sourced from Australian Government Final Budget Outcomes, Australian Treasury estimates, and the ABS 1997-98 and 2005-06 GFS (cat. no. 5512.0). State data for 2006-07 onwards are sourced from Victoria's and the Northern Territory's 2007-08 budgets and other jurisdictions' 2006-07 mid-year reports. Net debt data prior to 1998-99 are sourced from the ABS 1998 Public Sector Financial Assets and Liabilities (ABS cat. no. 5513.0), and the ABS 1999-2000 Government Finance Estimates (ABS cat. no. 5501.0).

Australian Government budget aggregates, including net debt for 1999-2000 onwards, have been revised relative to the respective Final Budget Outcomes to ensure that data are consistent across the accrual period.

Due to methodological and data source changes associated with the move to an accrual accounting framework, time series data that use measures derived under both cash and accrual accounting should be used with caution. Statement 13 provides more information on specific factors affecting the comparability of data between years.



# STATEMENT 13: HISTORICAL AUSTRALIAN GOVERNMENT DATA

This statement reports historical data for the Australian Government fiscal aggregates across the general government, public non-financial corporations and non-financial public sectors.

Table 1:	Australian Government general government sector receipts, payments and underlying cash balance.....	13-5
Table 2:	Australian Government general government sector taxation receipts, non-taxation receipts and total receipts.....	13-6
Table 3:	Australian Government general government sector net debt and net interest payments.....	13-7
Table 4:	Australian Government general government sector revenue, expenses, net capital investment, fiscal balance and net worth .....	13-8
Table 5:	Australian Government general government sector accrual taxation revenue, non-taxation revenue and total revenue.....	13-9
Table 6:	Australian Government cash receipts, payments and surplus by institutional sector.....	13-10
Table 7:	Australian Government accrual revenue, expenses and fiscal balance by institutional sector .....	13-11





# STATEMENT 13: HISTORICAL AUSTRALIAN GOVERNMENT DATA

Statement 13 provides historical data for the Australian Government fiscal aggregates across the general government, public non-financial corporations and non-financial public sectors.

Under the accrual Government Finance Statistics (GFS) framework, flows are recorded in the period in which they occurred. As a result, prior period outcomes may be revised where information arises that could reasonably be expected to have been known in the past, is material in at least one of the affected periods and can be reliably assigned to the relevant period(s).

Estimates up to and including 1998-99 are calculated on cash terms, while estimates from 1999-00 onwards are derived from an accrual framework. Due to methodological and data source changes associated with the move to an accrual accounting framework, time series data that include measures derived under both cash and accrual accounting should be used with caution.

There are other structural breaks within the data set, prior to the shift to accrual reporting. Classification differences and revisions, as well as changes to the structure of the budget, can impact on comparisons over such an extended period.

Specific factors that affect the comparability of data between years include:

- classification differences in the data relating to the period prior to 1976-77 (which means that earlier data may not be entirely consistent with data for 1976-77 onwards);
- adjustments in the coverage of agencies included in the accounts of the different sectors. These include the reclassification of Central Banking Authorities from the general government to the public financial corporations sector in 1998-99, and subsequent back casting to account for this change;
- consistent with the revised GFS treatment announced by the Australian Bureau of Statistics (ABS) (cat. no. 5501.0, released October 2002), the general government surplus measures in this statement, from 1998-99 onwards, incorporate the interest component of superannuation related payments by the Australian Government general government sector in respect of accumulated public non-financial corporations' superannuation liabilities;
- transfers of taxing powers between the Australian Government and the States;
- other changes in financial arrangements between the Australian Government and the State/local government sector; and

*Statement 13: Historical Australian Government Data*

- changes in arrangements for transfer payments, where tax concessions or rebates are replaced by payments through the social security system. This has the effect of increasing both cash receipts and payments, as compared with earlier periods, but not changing cash balances. Changes in the opposite direction (tax expenditures replacing payments) reduce both cash payments and receipts.

Cash data from 1998-99 onwards, net debt data from 1999-00 onwards and accrual data are sourced from Australian Government Final Budget Outcomes and Treasury estimates. Cash data prior to 1998-99 are sourced from the Australian Bureau of Statistics (ABS) 1997-98 Government Finance Statistics (cat. no. 5512.0), net debt data from 1987-88 to 1998-99 are from ABS 1999-2000 Government Financial Estimates (cat. no. 5501.0) and ABS 1998 Public Sector Financial Assets and Liabilities (cat. no. 5513.0), and net debt data prior to 1987-88 are Treasury estimates.

Occasionally classification changes are made that require revisions to the historic series. Where appropriate, the changes are back cast to 1999-00 to ensure that data is consistent across the accrual period. For example, the back casting to account for the market valuation of net debt as discussed on page 2-12 of Budget Paper No. 1, *Budget Strategy and Outlook 2003-04*.

While approximate adjustments can be made to identify trends in budget aggregates on a generally consistent basis, the further back the analysis is taken, the more difficult the task becomes.

**Table 1: Australian Government general government sector receipts, payments and underlying cash balance<sup>(a)</sup>**

	Receipts			Payments			Future Fund earnings	Underlying cash balance(b)	
	Per cent		Per cent of GDP	Per cent		Per cent of GDP	\$m	\$m	Per cent of GDP
	\$m	real growth		\$m	real growth				
1974-75	15,325	5.7	22.0	15,275	15.7	21.9	-	50	0.1
1975-76	18,316	3.7	22.4	19,876	12.9	24.3	-	-1,560	-1.9
1976-77	21,418	4.1	22.7	22,657	1.5	24.1	-	-1,239	-1.3
1977-78	23,491	0.8	22.8	25,489	3.4	24.8	-	-1,998	-1.9
1978-79	25,666	3.3	22.1	27,753	2.9	23.8	-	-2,087	-1.8
1979-80	29,780	5.9	22.5	31,041	2.1	23.5	-	-1,261	-1.0
1980-81	35,148	6.7	23.5	35,260	2.7	23.6	-	-112	-0.1
1981-82	40,831	2.8	23.7	40,394	1.4	23.4	-	437	0.3
1982-83	44,675	-1.7	24.1	47,907	6.5	25.8	-	-3,232	-1.7
1983-84	49,102	3.0	23.4	55,966	9.5	26.7	-	-6,864	-3.3
1984-85	57,758	11.8	25.0	63,639	8.0	27.5	-	-5,881	-2.5
1985-86	64,845	5.7	25.4	69,838	3.3	27.4	-	-4,993	-2.0
1986-87	73,145	5.4	26.2	75,392	0.9	27.0	-	-2,247	-0.8
1987-88	81,217	3.0	25.4	79,440	-2.2	24.9	-	1,777	0.6
1988-89	88,369	-0.2	24.4	82,202	-5.1	22.7	-	6,167	1.7
1989-90	95,517	1.8	24.0	88,882	1.8	22.4	-	6,635	1.7
1990-91	97,705	-2.6	23.9	97,333	4.2	23.8	-	372	0.1
1991-92	92,966	-6.7	22.3	104,551	5.3	25.1	-	-11,585	-2.8
1992-93	94,448	0.3	21.6	111,484	5.2	25.4	-	-17,036	-3.9
1993-94	100,142	5.1	21.8	117,252	4.3	25.5	-	-17,110	-3.7
1994-95	109,720	8.6	22.5	122,901	3.9	25.3	-	-13,181	-2.7
1995-96	121,105	7.7	23.4	131,182	4.1	25.3	-	-10,077	-1.9
1996-97	129,845	5.5	23.8	135,126	1.4	24.8	-	-5,281	-1.0
1997-98	135,779	3.2	23.5	134,608	-1.7	23.3	-	1,171	0.2
1998-99	146,496	7.6	24.1	142,159	5.3	23.4	-	4,337	0.7
1999-00	166,089	na	25.7	153,030	na	23.7	-	13,059	2.0
2000-01	161,114	-7.1	23.4	155,143	-2.9	22.5	-	5,970	0.9
2001-02	162,884	-1.2	22.1	163,867	3.2	22.3	-	-983	-0.1
2002-03	176,503	5.2	22.6	169,017	0.1	21.6	-	7,486	1.0
2003-04	187,336	2.1	22.3	179,300	2.1	21.3	-	8,036	1.0
2004-05	203,960	4.7	22.7	190,344	2.1	21.2	-	13,616	1.5
2005-06	221,834	3.7	23.0	205,991	3.1	21.3	51	15,792	1.6
2006-07(e)	234,619	1.1	22.7	218,859	1.5	21.2	2,130	13,631	1.3
<b>2007-08(e)</b>	<b>245,611</b>	<b>2.1</b>	<b>22.4</b>	<b>231,983</b>	<b>3.4</b>	<b>21.1</b>	<b>2,991</b>	<b>10,637</b>	<b>1.0</b>
2008-09(p)	259,218	4.4	22.7	243,713	3.9	21.3	2,793	12,712	1.1
2009-10(p)	272,937	4.1	22.9	256,212	4.0	21.5	2,913	13,812	1.2
2010-11(p)	285,839	2.5	22.8	270,398	3.3	21.6	2,994	12,447	1.0

(a) There is a break in the series between 1998-99 and 1999-00. Data for the years up to and including 1998-99 are consistent with the cash ABS GFS reporting requirements. From 1999-00, data are derived from an accrual ABS GFS reporting framework, with receipts proxied by receipts from operating activities and sales of non-financial assets, and payments proxied by payments for operating activities, purchases of non-financial assets and net acquisition of assets under finance leases. Due to associated methodological and data source changes, time series data that encompass measures derived under both cash and accrual accounting should be used with caution.

(b) Underlying cash balance is equal to receipts less payments less expected Future Fund earnings. For the purposes of consistent comparison with years prior to 2005-06, Future Fund earnings should be added back to the underlying cash balance.

(e) Estimates.

(p) Projections.

na Not applicable, due to a structural break in the series.

**Table 2: Australian Government general government sector taxation receipts, non-taxation receipts and total receipts<sup>(a)</sup>**

	Taxation receipts			Non-taxation receipts			Total receipts		
	Per cent			Per cent			Per cent		
	\$m	real growth	Per cent of GDP	\$m	real growth	Per cent of GDP	\$m	real growth	Per cent of GDP
1974-75	14,141	7.1	20.3	1,184	-8.2	1.7	15,325	5.7	22.0
1975-76	16,920	3.8	20.7	1,396	2.3	1.7	18,316	3.7	22.4
1976-77	19,714	3.8	20.9	1,704	8.7	1.8	21,418	4.1	22.7
1977-78	21,428	-0.1	20.8	2,063	11.3	2.0	23,491	0.8	22.8
1978-79	23,409	3.3	20.1	2,257	3.4	1.9	25,666	3.3	22.1
1979-80	27,473	7.2	20.8	2,307	-6.7	1.7	29,780	5.9	22.5
1980-81	32,641	7.4	21.8	2,507	-1.7	1.7	35,148	6.7	23.5
1981-82	37,880	2.7	22.0	2,951	4.2	1.7	40,831	2.8	23.7
1982-83	41,025	-2.7	22.1	3,650	11.1	2.0	44,675	-1.7	24.1
1983-84	44,849	2.4	21.4	4,253	9.2	2.0	49,102	3.0	23.4
1984-85	52,970	12.2	22.9	4,788	7.0	2.1	57,758	11.8	25.0
1985-86	58,841	4.6	23.1	6,004	18.0	2.4	64,845	5.7	25.4
1986-87	66,467	5.5	23.8	6,678	3.9	2.4	73,145	5.4	26.2
1987-88	75,076	4.8	23.5	6,141	-14.7	1.9	81,217	3.0	25.4
1988-89	83,452	1.9	23.0	4,917	-26.6	1.4	88,369	-0.2	24.4
1989-90	90,773	2.5	22.8	4,744	-9.1	1.2	95,517	1.8	24.0
1990-91	92,739	-2.8	22.7	4,966	-0.4	1.2	97,705	-2.6	23.9
1991-92	87,364	-7.7	20.9	5,602	10.6	1.3	92,966	-6.7	22.3
1992-93	88,760	0.3	20.3	5,688	0.3	1.3	94,448	0.3	21.6
1993-94	93,362	4.3	20.3	6,780	18.2	1.5	100,142	5.1	21.8
1994-95	104,921	11.4	21.6	4,799	-29.8	1.0	109,720	8.6	22.5
1995-96	115,700	7.6	22.3	5,405	9.9	1.0	121,105	7.7	23.4
1996-97	124,559	5.9	22.8	5,286	-3.8	1.0	129,845	5.5	23.8
1997-98	130,984	3.8	22.7	4,795	-10.5	0.8	135,779	3.2	23.5
1998-99	141,105	7.5	23.2	5,391	12.1	0.9	146,496	7.6	24.1
1999-00	151,313	na	23.5	14,777	na	2.3	166,089	na	25.7
2000-01	146,698	-7.2	21.3	14,416	-6.6	2.1	161,114	-7.1	23.4
2001-02	148,343	-1.2	20.2	14,541	-1.5	2.0	162,884	-1.2	22.1
2002-03	161,418	5.7	20.7	15,084	0.7	1.9	176,503	5.2	22.6
2003-04	173,023	3.1	20.6	14,313	-8.7	1.7	187,336	2.1	22.3
2004-05	188,176	4.6	21.0	15,784	6.1	1.8	203,960	4.7	22.7
2005-06	203,918	3.3	21.1	17,916	8.2	1.9	221,834	3.7	23.0
2006-07(e)	216,400	1.4	20.9	18,220	-2.8	1.8	234,619	1.1	22.7
<b>2007-08(e)</b>	<b>226,857</b>	<b>2.3</b>	<b>20.7</b>	<b>18,754</b>	<b>0.4</b>	<b>1.7</b>	<b>245,611</b>	<b>2.1</b>	<b>22.4</b>
2008-09(p)	239,562	4.4	20.9	19,656	3.6	1.7	259,218	4.4	22.7
2009-10(p)	252,073	4.1	21.2	20,864	5.0	1.8	272,937	4.1	22.9
2010-11(p)	262,845	2.1	21.0	22,994	7.9	1.8	285,839	2.5	22.8

(a) There is a break in the series between 1998-99 and 1999-00. Data for the years up to and including 1998-99 are consistent with the cash ABS GFS reporting requirements. From 1999-00, data are derived from an accrual ABS GFS reporting framework, with receipts proxied by receipts from operating activities and sales of non-financial assets. Due to associated methodological and data source changes, time series data that encompass measures derived under both cash and accrual accounting should be used with caution.

(e) Estimates.

(p) Projections.

na Not applicable, due to a structural break in the series.

**Table 3: Australian Government general government sector net debt and net interest payments<sup>(a)</sup>**

	Net debt(b)		Net interest payments(c)	
	\$m	Per cent of GDP	\$m	Per cent of GDP
1974-75	-1,901	-2.7	-267	-0.4
1975-76	-341	-0.4	-389	-0.5
1976-77	898	1.0	-161	-0.2
1977-78	2,896	2.8	-106	-0.1
1978-79	4,983	4.3	126	0.1
1979-80	6,244	4.7	290	0.2
1980-81	6,356	4.2	444	0.3
1981-82	5,919	3.4	475	0.3
1982-83	9,151	4.9	654	0.4
1983-84	16,015	7.6	1,327	0.6
1984-85	21,896	9.5	2,462	1.1
1985-86	26,889	10.5	3,626	1.4
1986-87	29,136	10.4	4,387	1.6
1987-88	27,359	8.6	4,019	1.3
1988-89	21,982	6.1	3,722	1.0
1989-90	16,121	4.1	3,848	1.0
1990-91	16,936	4.1	2,834	0.7
1991-92	31,132	7.5	2,739	0.7
1992-93	55,218	12.6	2,912	0.7
1993-94	70,223	15.3	4,549	1.0
1994-95	83,492	17.2	6,310	1.3
1995-96	95,831	18.5	7,812	1.5
1996-97	96,281	17.6	8,449	1.5
1997-98	82,935	14.4	7,381	1.3
1998-99	70,402	11.6	6,901	1.1
1999-00	54,538	8.5	6,014	0.9
2000-01	43,465	6.3	4,855	0.7
2001-02	38,642	5.3	4,238	0.6
2002-03	30,375	3.9	3,641	0.5
2003-04	23,948	2.8	2,994	0.4
2004-05	12,453	1.4	2,463	0.3
2005-06	-5,337	-0.6	2,265	0.2
2006-07(e)	-28,444	-2.8	175	0.0
<b>2007-08(e)</b>	<b>-12,049</b>	<b>-1.1</b>	<b>-391</b>	<b>0.0</b>
2008-09(p)	-28,366	-2.5	-161	0.0
2009-10(p)	-43,887	-3.7	-1,175	-0.1
2010-11(p)	-59,233	-4.7	-1,051	-0.1

(a) There is a break in the net debt and net interest series between 1998-99 and 1999-00 (the first year of accrual budgeting). Up to 1998-99, Australian Government general government debt instruments are valued at historic cost. From 1999-00, Australian Government general government debt instruments are valued at market prices, consistent with accrual GFS standards.

(b) Net debt has been revised upwards for the period from 1999-00 to 2005-06 due to a reclassification of liabilities to the International Development Agency and Asian Development Fund from operating to loans.

(c) Excludes superannuation related interest flows.

(e) Estimates.

(p) Projections.

**Table 4: Australian Government general government sector revenue, expenses, net capital investment, fiscal balance and net worth<sup>(a)</sup>**

	Revenue		Expenses		Net capital investment		Fiscal balance		Net worth <sup>(b)</sup>	
	\$m	Per cent of GDP	\$m	Per cent of GDP	\$m	Per cent of GDP	\$m	Per cent of GDP	\$m	Per cent of GDP
1996-97	141,688	26.0	145,809	26.7	90	0.0	-4,211	-0.8	-74,354	-13.6
1997-98	146,820	25.4	148,646	25.7	147	0.0	-1,973	-0.3	-68,544	-11.9
1998-99	151,897	25.0	146,620	24.1	1,433	0.2	3,844	0.6	-76,150	-12.5
1999-00	167,158	25.9	156,492	24.3	-1,225	-0.2	11,892	1.8	-40,552	-6.3
2000-01	162,074	23.5	157,667	22.9	-1,168	-0.2	5,575	0.8	-43,299	-6.3
2001-02	162,956	22.1	166,758	22.7	-369	-0.1	-3,433	-0.5	-48,429	-6.6
2002-03	175,513	22.5	170,999	21.9	-219	0.0	4,734	0.6	-53,251	-6.8
2003-04	187,924	22.4	182,371	21.7	724	0.1	4,830	0.6	-39,595	-4.7
2004-05	206,605	23.0	195,680	21.8	147	0.0	10,778	1.2	-30,279	-3.4
2005-06	221,918	23.0	206,096	21.3	1,052	0.1	14,770	1.5	-22,835	-2.4
2006-07 <sup>(e)</sup>	235,539	22.8	221,625	21.5	2,025	0.2	11,888	1.2	-10,852	-1.1
<b>2007-08<sup>(e)</sup></b>	<b>246,761</b>	<b>22.5</b>	<b>235,590</b>	<b>21.5</b>	<b>1,171</b>	<b>0.1</b>	<b>9,999</b>	<b>0.9</b>	<b>-587</b>	<b>-0.1</b>
2008-09 <sup>(p)</sup>	260,726	22.8	247,489	21.6	1,377	0.1	11,860	1.0	14,064	1.2
2009-10 <sup>(p)</sup>	274,614	23.1	259,652	21.8	861	0.1	14,101	1.2	29,122	2.4
2010-11 <sup>(p)</sup>	287,312	22.9	272,669	21.8	939	0.1	13,704	1.1	44,137	3.5

(a) The fiscal balance is equal to revenue less expenses less net capital investment. Net worth is calculated as assets less liabilities.

(b) There is a break in the net worth series between 1998-99 and 1999-00. Data up to 1998-99 are sourced from the Australian Government's Consolidated Financial Statements based on Australian accounting standards. Data beginning in 1999-00 are based on the GFS framework. For the general government sector, the major change across the break in the series is an improvement in net worth. This is primarily due to the move from valuing investments in public corporations at historic cost to current market value (which is calculated using the share price for listed corporations). This is partly offset by defence weapons platforms no longer being recorded as assets and valuing debt at current market value.

(e) Estimates.

(p) Projections.

**Table 5: Australian Government general government sector accrual taxation revenue, non-taxation revenue and total revenue**

	Taxation revenue			Non-taxation revenue			Total revenue		
	\$m	Per cent		\$m	Per cent		\$m	Per cent	
		real growth	Per cent of GDP		real growth	Per cent of GDP		real growth	Per cent of GDP
1999-00	153,473	na	23.8	13,685	na	2.1	167,158	na	25.9
2000-01	152,080	-5.1	22.1	9,994	-30.1	1.4	162,074	-7.2	23.5
2001-02	150,873	-3.1	20.5	12,083	18.1	1.6	162,956	-1.8	22.1
2002-03	163,957	5.5	21.0	11,556	-7.1	1.5	175,513	4.6	22.5
2003-04	175,838	3.2	20.9	12,085	0.6	1.4	187,924	3.0	22.4
2004-05	194,150	6.2	21.7	12,455	-0.9	1.4	206,605	5.8	23.0
2005-06	206,832	1.5	21.4	15,086	15.5	1.6	221,918	2.4	23.0
2006-07(e)	220,466	1.8	21.3	15,072	-4.5	1.5	235,539	1.4	22.8
<b>2007-08(e)</b>	<b>231,069</b>	<b>2.3</b>	<b>21.1</b>	<b>15,691</b>	<b>1.6</b>	<b>1.4</b>	<b>246,761</b>	<b>2.2</b>	<b>22.5</b>
2008-09(p)	244,066	4.4	21.3	16,660	5.0	1.5	260,726	4.5	22.8
2009-10(p)	256,636	4.0	21.5	17,978	6.7	1.5	274,614	4.2	23.1
2010-11(p)	267,262	1.9	21.3	20,050	9.2	1.6	287,312	2.4	22.9

(e) Estimates.

(p) Projections.

na Data not available.

Table 6: Australian Government cash receipts, payments and surplus by institutional sector (\$m)<sup>(a)</sup>

	General government				Public non-financial corporations				Non-financial public sector			
	Underlying cash		Cash surplus		Cash surplus		Cash surplus		Cash surplus		Cash surplus	
	Receipts	Payments	balance(b)	Receipts	Payments	Cash surplus	Receipts	Payments	Receipts	Payments	Cash surplus	Cash surplus
1988-89	88,369	82,202	6,167	4,177	6,035	257	91,544	87,188	91,544	87,188	6,424	6,424
1989-90	95,517	88,882	6,635	3,926	11,322	-5,261	98,387	99,081	98,387	99,081	1,374	1,374
1990-91	97,705	97,333	372	4,804	9,351	-2,139	101,315	105,476	101,315	105,476	-1,767	-1,767
1991-92	92,966	104,551	-11,585	3,899	7,713	101	95,063	110,448	95,063	110,448	-11,484	-11,484
1992-93	94,448	111,484	-17,036	4,385	7,819	-196	97,327	117,775	97,327	117,775	-17,232	-17,232
1993-94	100,142	117,252	-17,110	5,178	6,476	1,482	103,065	121,457	103,065	121,457	-15,628	-15,628
1994-95	109,720	122,901	-13,181	5,262	7,318	1,956	113,013	128,247	113,013	128,247	-11,225	-11,225
1995-96	121,105	131,182	-10,077	4,927	8,190	-527	123,269	136,607	123,269	136,607	-10,604	-10,604
1996-97	129,845	135,126	-5,281	4,782	7,373	473	131,512	139,385	131,512	139,385	-4,808	-4,808
1997-98	135,779	134,608	1,171	6,238	7,923	1,119	139,560	140,006	139,560	140,006	2,290	2,290
1998-99	146,496	142,159	4,337	na	na	-353	na	na	na	na	3,984	3,984
1999-00	166,089	153,030	13,059	na	na	-2,594	na	na	na	na	10,465	10,465
2000-01	161,114	155,143	5,970	na	na	391	na	na	na	na	6,362	6,362
2001-02	162,884	163,867	-983	na	na	1,210	na	na	na	na	227	227
2002-03	176,503	169,017	7,486	27,386	26,105	1,280	na	na	na	na	8,766	8,766
2003-04	187,336	179,300	8,036	27,718	26,142	1,575	207,797	196,614	207,797	196,614	9,611	9,611
2004-05	203,960	190,344	13,616	29,621	28,071	1,550	225,922	209,514	225,922	209,514	15,167	15,167
2005-06	221,834	205,991	15,792	30,875	31,874	-999	244,145	229,300	244,145	229,300	14,794	14,794
2006-07(e)	234,619	218,859	13,631	17,154	18,671	-1,517	248,096	233,853	248,096	233,853	12,114	12,114
<b>2007-08(e)</b>	<b>245,611</b>	<b>231,983</b>	<b>10,637</b>	<b>7,924</b>	<b>8,679</b>	<b>-756</b>	<b>252,314</b>	<b>239,442</b>	<b>252,314</b>	<b>239,442</b>	<b>9,881</b>	<b>9,881</b>
2008-09(p)	259,218	243,713	12,712	na	na	na	na	na	na	na	na	na
2009-10(p)	272,937	256,212	13,812	na	na	na	na	na	na	na	na	na
2010-11(p)	285,839	270,398	12,447	na	na	na	na	na	na	na	na	na

(a) There is a break in the series between 1998-99 and 1999-00. Data for the years up to and including 1998-99 are consistent with the cash ABS GFS reporting requirements. From 1999-00 onwards, data are derived from an accrual ABS GFS reporting framework, with receipts proxied by receipts from operating activities and sales of non-financial assets, and payments proxied by payments for operating activities, purchases of non-financial assets and net acquisition of assets under finance leases. Due to associated methodological and data source changes, time series data which encompass measures derived under both cash and accrual accounting should be used with caution.

(b) These items exclude expected Future Fund earnings from 2005-06 onwards. Expected Future Fund earnings are shown in Table 1.

(c) Estimates.

(p) Projections.

na Data not available.



**Table 7: Australian Government accrual revenue, expenses and fiscal balance by institutional sector (\$m)<sup>(a)</sup>**

	General government			Public non-financial corporations			Non-financial public sector		
	Revenue	Expenses	Fiscal balance	Revenue	Expenses	Fiscal balance	Revenue	Expenses	Fiscal balance
1996-97	141,688	145,809	-4,211	27,431	26,015	-331	na	na	-4,542
1997-98	146,820	148,646	-1,973	29,618	26,999	2,360	na	na	387
1998-99	151,897	146,620	3,844	27,687	26,088	-816	175,682	168,806	3,028
1999-00	167,158	156,492	11,892	25,485	23,542	1,062	188,695	174,929	12,953
2000-01	162,074	157,667	5,575	25,869	24,762	-826	183,337	177,823	4,750
2001-02	162,956	166,758	-3,433	26,638	25,341	793	184,986	187,491	-2,640
2002-03	175,513	170,999	4,734	24,339	22,916	1,975	194,725	188,829	6,709
2003-04	187,924	182,371	4,830	25,449	23,444	2,143	207,628	200,070	6,973
2004-05	206,605	195,680	10,778	26,965	25,191	1,473	227,685	214,986	12,250
2005-06	221,918	206,096	14,770	28,143	29,531	-2,442	243,276	228,841	12,328
2006-07(e)	235,539	221,625	11,888	15,523	16,119	-1,289	247,744	234,426	10,600
<b>2007-08(e)</b>	<b>246,761</b>	<b>235,590</b>	<b>9,999</b>	<b>6,930</b>	<b>6,857</b>	<b>-929</b>	<b>252,165</b>	<b>240,922</b>	<b>9,070</b>
2008-09(p)	260,726	247,489	11,860	na	na	na	na	na	na
2009-10(p)	274,614	259,652	14,101	na	na	na	na	na	na
2010-11(p)	287,312	272,669	13,704	na	na	na	na	na	na

(a) The fiscal balance is equal to revenue less expenses less net capital investment. Net capital investment is not shown in this table.

(e) Estimates.

(p) Projections.

na Data not available.

