STATEMENT 1: FISCAL OUTLOOK AND STRATEGY

Contents

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Part I: Overview

The 2000-01 Budget provides the Government's fourth surplus in a row. This has been achieved while delivering landmark tax reform, including substantial income tax cuts, and a range of high priority spending initiatives, such as in rural and regional Australia.

Table 1: Summary of Budget Aggregates

	Actual	Estimates		Projections		
	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04
Fiscal balance ($b)	**3.9**	**9.7**	**5.4**	**1.1**	**7.6**	**13.9**
Per cent of GDP	0.7	1.5	0.8	0.2	1.0	1.7
Underlying cash balance ($b)	**4.2**	**7.8**	**2.8**	**3.2**	**8.8**	**14.4**
Per cent of GDP	0.7	1.2	0.4	0.5	1.2	1.8

In accrual terms, the fiscal balance is expected to be in surplus by $5.4 billion or 0.8 per cent of GDP in 2000-01, an improvement of $1.0 billion on the corresponding estimate at the time of the *Mid-Year Economic and Fiscal Outlook 1999-2000* (MYEFO). This follows an estimated surplus of $9.7 billion in 1999-2000.

In cash terms, an underlying surplus of $2.8 billion or 0.4 per cent of GDP is expected in 2000-01, an improvement of $2.3 billion on the corresponding estimate at the time of MYEFO. The outcome for 1999-2000 is estimated to be much stronger than forecast at the time of MYEFO, an improvement of $4.4 billion to an estimated outcome of $7.8 billion.

In addition to *The New Tax System* reforms, which include the largest personal income tax cuts in Australia's history, the Government will also provide funding in this Budget to support a number of key new initiatives, including in the areas of rural and regional Australia, health and families. The Government is also announcing in this Budget that it will not be proceeding with the temporary Defence — East Timor levy.

The 2000-01 Budget surplus, together with the surpluses projected in the forward years, is consistent with the Government's medium-term fiscal strategy of achieving fiscal balance, on average, over the course of the economic cycle.

The Government has met — indeed exceeded all of the fiscal objectives it set for itself on coming into office in 1996. The budget was returned to surplus in 1997-98, one year ahead of target, surpluses have been maintained while economic growth prospects remain sound, the ratio of Commonwealth net debt to GDP has been more than halved, the tax burden has not increased, and expenses as a share of GDP have fallen.

The Australian economy is expected to continue to grow solidly by 3¾ per cent in 2000-01, following three years of strong growth of over 4 per cent a year. The growth forecasts have been revised up since the MYEFO, and this has contributed to the improvement in the budget surplus for 2000-01.

Inflationary pressures are expected to remain low, with ongoing inflation forecast to remain within the Reserve Bank's target band of 2 to 3 per cent on average over the course of the cycle. The introduction of *The New Tax System* will result in a one-off increase in prices, lifting the CPI to 5¾ per cent for 2000-01 as a whole. However, compensation measures and competitive pressures in the economy should ensure that this one-off impact is not built into ongoing inflation.

Table 2: Major Economic Parameters (percentage change from previous year)

	Forecasts		Projections		
	1999-2000	2000-01	2001-02	2002-03	2003-04
Real GDP	4 1/4	3 3/4	3 1/2	3 1/2	3 1/2
Employment(a)	2 3/4	2 1/4	2	2	2
Wages(b)	3	4 1/4	3 1/2	3 1/2	3 1/2
CPI(c)	2 1/2	5 3/4	2 1/2	2 1/2	2 1/2

(a) Labour Force Survey basis.
(b) Average earnings (national accounts basis).
(c) The CPI projections are set as the mid-point of the medium-term inflation target and as such make no allowance for the further impact of *The New Tax System*, as discussed in Statement 3.

While recent economic growth has been strong, it has been sustainable and imbalances that might otherwise have shortened the expansion have not emerged. Confidence in the macroeconomic policy framework has played an important role. Low inflation outcomes have been consistently achieved.

Wide ranging structural reform has made an important contribution to the good growth outcomes. Labour market and competition policy reforms have resulted in strengthened competitive pressure in product markets and delivered improved productivity, sustainable rises in real wages and falling unemployment.

Maintenance of a sound macroeconomic policy framework has been essential in ensuring continued good economic performance. As a key element in that policy framework, the Government's fiscal strategy has helped to maintain investor confidence and contributed to a lower interest rate environment.

Part II: Budget Aggregates

Table 3 provides details of the Commonwealth general government budget outlook.

Table 3: Commonwealth General Government Budget Aggregates[(a)]

	Actual	Estimates		Projections		
	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04
Revenue ($b)	**151.9**	**164.7**	**153.5**	**158.6**	**168.3**	**180.5**
Per cent of GDP	25.6	26.2	23.0	22.4	22.4	22.7
Expenses ($b)	**146.6**	**155.2**	**150.3**	**156.5**	**160.1**	**165.5**
Per cent of GDP	24.7	24.7	22.5	22.1	21.3	20.8
Net operating balance ($b)	5.3	9.4	3.2	2.1	8.2	15.0
Net capital investment ($b)(b)	1.4	-0.3	-2.2	1.0	0.6	1.1
Fiscal balance ($b)	**3.9**	**9.7**	**5.4**	**1.1**	**7.6**	**13.9**
Per cent of GDP	0.7	1.5	0.8	0.2	1.0	1.7
Underlying cash balance ($b)	**4.2**	**7.8**	**2.8**	**3.2**	**8.8**	**14.4**
Per cent of GDP	0.7	1.2	0.4	0.5	1.2	1.8
Memorandum item:						
Headline cash balance ($b)	11.1	17.2	8.0	14.0	24.7	21.0

(a) Estimates in this table are presented on a Government Finance Statistics (GFS) basis, but with Goods and Services Tax (GST) revenue collected on behalf of the States and Territories netted off revenue and expenses (see Appendix B). There is an effective break in the revenue and expenses series in 2000-01 reflecting the introduction of *The New Tax System*.

(b) Net acquisition of non-financial assets.

In 2000-01 the Commonwealth budget is expected to remain in surplus, in both cash and accrual terms. Some reduction in the surplus is, however, expected relative to the anticipated outcome for 1999-2000. This reduction is explained by the substantial income tax cuts and increases in personal benefit payments that will be implemented from 1 July 2000 as part of *The New Tax System*.

Total revenue and expenses are expected to fall markedly as a percentage of GDP in 2000-01. These reductions reflect an effective break in both series with the introduction of *The New Tax System*, in particular the abolition of the wholesale sales tax and the abolition of financial assistance grants to the States. In addition, the delivery of personal income tax cuts will result in a large reduction in revenue. All revenue from the GST is appropriated to the States.

Although the estimated underlying cash and fiscal surpluses are broadly similar in most years, divergences can occur. In 2000-01, for example, the divergence is primarily explained by the introduction of the new Pay As You Go system for taxation collections.[1]

1 Under the PAYG arrangements, there will be an effective bring forward of the taxation liabilities of companies and superannuation funds. This will boost accrual revenue significantly in 2000-01. However, as a transitional arrangement, some of the liabilities in 2000-01 can be deferred and paid in cash over the following 2½ to 5 years.

Chart 1 shows movements in the fiscal balance and underlying cash balance since 1996-97, while Chart 2 shows movements in revenue and expenses as a proportion of GDP. The growing surpluses beyond 2001-02 reflect further declines in the ratio of expenses to GDP, with revenue collections as a share of GDP remaining broadly stable.

Chart 1: Fiscal and Underlying Cash Balances

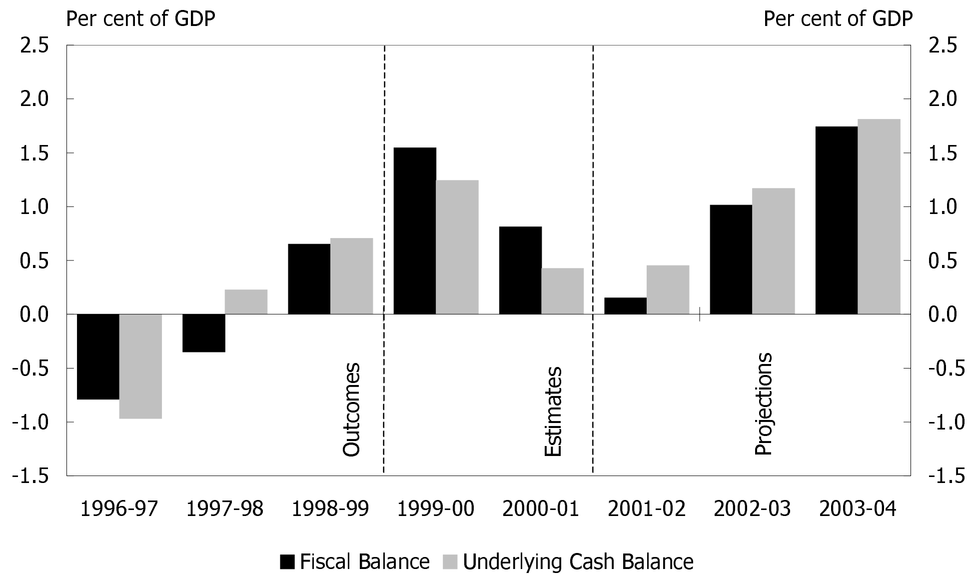
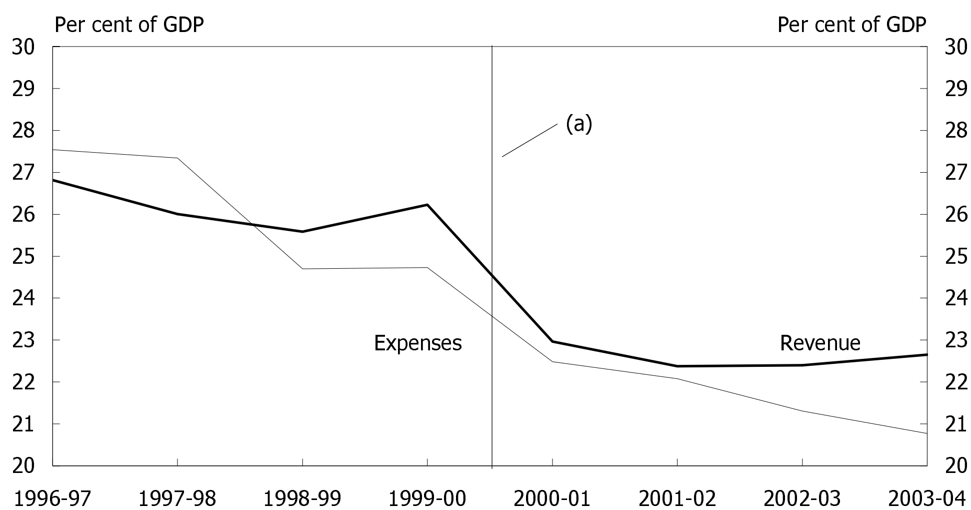


Chart 2: Commonwealth General Government Budget Aggregates



(a) There is an effective break in the series in 2000-01 as a result of the introduction of *The New Tax System*.

Table 4 provides a reconciliation of the fiscal balance estimates between those at the time of the 1999-2000 Budget, the 1999-2000 MYEFO and the 2000-01 Budget.

Table 4: Reconciliation of 1999-2000 Budget, MYEFO and 2000-01 Budget Fiscal Balance Estimates

	1999-00 $m	2000-01 $m	2001-02 $m	2002-03 $m
1999-2000 Budget fiscal balance	**5426**	**7195**	**5189**	**11353**
(per cent of GDP)	0.9	1.1	0.7	1.5
Changes between 1999-2000 Budget and MYEFO				
Effect of policy decisions(a)				
Revenue	-28	3051	1222	2388
Expenses	1281	4259	3533	3663
Net capital investment	145	255	110	26
Total policy decisions(b)	-1455	-1463	-2421	-1301
Effect of parameter and other variations				
Revenue	-428	262	3037	3019
Expenses	-852	2291	3555	3738
Net capital investment	-475	-689	-691	-722
Total parameter and other variations(b)	899	-1340	173	3
1999-2000 MYEFO fiscal balance	**4871**	**4392**	**2941**	**10056**
(per cent of GDP)	0.8	0.7	0.4	1.3
Changes between MYEFO and 2000-01 Budget				
Effect of policy decisions(a)				
Revenue	1	-1390	-427	-392
Expenses	25	872	832	728
Net capital investment	35	-197	11	-82
Total policy decisions(b)	-59	-2064	-1270	-1038
Effect of parameter and other variations				
Revenue	4362	3544	3731	3177
Expenses	824	3008	3801	3983
Net capital investment	-1548	-2813	175	171
Total parameter and other variations(b)	5087	3348	-246	-978
Reclassification of swap transactions(b)(c)	-195	-240	-354	-430
2000-01 Budget fiscal balance	**9704**	**5436**	**1072**	**7610**
(per cent of GDP)	1.5	0.8	0.2	1.0

(a) Excluding the public debt net interest effect of policy measures.
(b) Effect on fiscal balance.
(c) Information on the reclassification of swap transactions is contained in Appendix B.

Since MYEFO, the estimated fiscal surpluses for 1999-2000 and 2000-01 have been revised upwards, with some reduction to the surpluses expected in the forward years.

In 2000-01, policy decisions since MYEFO total $2.1 billion. However, this is more than offset by economic parameter and other variations, including:

- an increase in the proceeds anticipated from the sale of telecommunications spectrum licences; and

- a significant upward revision to expected taxation revenue. This reflects both the flow-on effect of higher than expected collections in 1999-2000, and the impact of stronger economic activity than forecast at MYEFO.

Major new policy decisions since MYEFO include:

- a decision by the Government not to proceed with the temporary Defence — East Timor levy, with an estimated cost to revenue of $900 million in 2000-01;

- setting beer excise rates on conservative assumptions so as to ensure the retail price of a carton of regular full strength beer need not increase by any more than 1.9 per cent, with an additional cost against the forward estimates of $460 million;

- an additional $1.8 billion in assistance to rural and regional Australia over the next four years. This includes $562 million over four years for the *Regional Health Package — More Doctors, Better Services*, around $500 million over the next four years for the Fuel Sales Grants Scheme and $309 million for the *Agriculture — Advancing Australia (AAA) Package*;

- an additional $240 million over four years for the Stronger Families and Communities Strategy;

- extra funding of around $240 million over three years to public and not-for-profit hospitals to ease the transition to changes to the fringe benefits tax (FBT) legislation and an extra $120 million over four years for residential aged care subsidies. This assistance is in addition to the announced increase in the level of the FBT cap applying to public benevolent institutions and non-profit employers;

- total funding of $228 million in 2000-01 to address high priority Defence needs, including the enhancement of two Collins Class submarines;

- additional funding to assist East Timor's transition to nationhood, involving $100 million in foreign aid and $104 million for the continued deployment of Australian Federal Police; and

- an extension of the Defence property sales programme, to yield an estimated $541 million over four years.

A full description of all policy decisions taken since the 1999-2000 MYEFO can be found in *Budget Paper No. 2 — Budget Measures 2000-01*.

Box 1: Removal of the Defence — East Timor Levy

The Government is announcing in this Budget that it will not be proceeding with the Defence — East Timor levy. The temporary levy was to apply for twelve months commencing from 1 July 2000 and was expected to raise $900 million in 2000-01. The decision to remove the levy reflects the lower than expected cost of the Defence deployment in East Timor and the improvement in the budget position.

The Defence deployment to East Timor is now expected to cost $945 million in 2000-01, down from the $1089 million expected when the levy was announced last November. Taking into account United Nations (UN) reimbursement, the net cost of the Defence deployment is now expected to be $831 million in 2000-01. The lower cost in 2000-01 than originally expected reflects the success of the Australian-led International Force East Timor (INTERFET) and the smooth transition to the UN Transitional Administration in East Timor. Other contributing factors include free logistical support from the United States and lower defence personnel costs.

On the basis of the budget estimates when the levy was announced last November, the unanticipated costs of Australia's East Timor deployment would have pushed the Budget into deficit in underlying cash terms in 2000-01.

The improved budget position since then means that the costs of the East Timor deployment in 2000-01 can be absorbed without a levy while still achieving a substantial surplus.

Parameter and other variations since MYEFO are principally the result of reclassification between revenue and expenses.

- The first is a reclassification of the Diesel Fuel Rebate Scheme (DFRS) from a revenue offset to an expense. This follows the agreement with the Australian Democrats to introduce a targeted grants scheme (whilst retaining a rebate scheme) in place of the tax credit scheme proposed in *A New Tax System*. This reclassification increases revenue by around $1½ billion in 1999-2000 and $2 billion in 2000-01, with equivalent increases in expenses.

- The second relates to a re-evaluation of the expected distribution of the *Family Tax Benefit (FTB) Package* between revenue and expenses. Recent survey data suggest that more families than previously expected will claim the FTB as a cash payment rather than through the taxation system, increasing expenses by over $½ billion from 2000-01.

Abstracting from policy measures and the DFRS and FTB revisions, estimated expenses in 2000-01 have increased by around $0.4 billion since MYEFO. This is partly explained by the effect of economic parameter variations, with the regular drawdown of the conservative bias allowance largely offsetting a range of programme specific parameter and other variations.

As indicated in Table 4, parameter and other variations are expected to result in a substantial reduction in net capital investment of around $2.8 billion in 2000-01. This variation mainly reflects an upward revision to the expected proceeds from the sale of non-financial assets, principally telecommunications spectrum licences. In the calculation of net capital investment, proceeds from the sale of non-financial assets are subtracted from purchases of non-financial assets. Consequently, an increase in the proceeds from the sale of non-financial assets reduces net capital investment and increases the fiscal balance.

Beyond 2000-01, the upward revisions to net capital investment since MYEFO mainly reflect the inclusion, for the first time, of a conservative bias allowance to account for an identified tendency for agencies to underestimate their capital investment expenditure beyond the budget year.

Further details on variations in the expenses and net capital investment estimates since MYEFO are provided in Budget Statement 6.

On the revenue side, estimated taxation revenue in 2000-01 has been revised upwards by around $1 billion since MYEFO (again abstracting from policy measures and the DFRS and FTB changes). This reflects an assessment that recent stronger than expected revenue collections, particularly from companies and oil producers, will have some flow-on effect into 2000-01. Upward revisions to forecast economic activity since MYEFO also point to a stronger outlook for taxation revenue in 2000-01.

Further details on variations in taxation and non-taxation revenue since MYEFO are provided in Budget Statement 5.

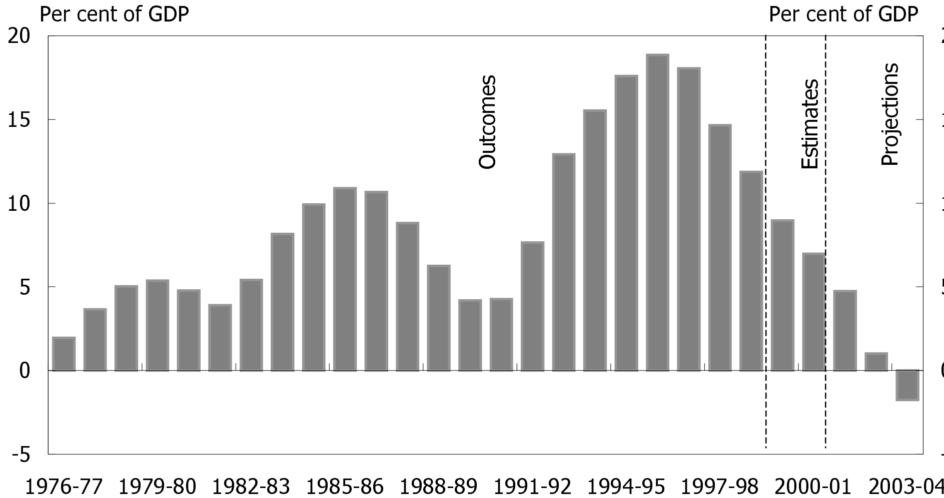
Appendix C in Statement 4 contains a Statement of Risks which details potential factors which could materially affect the fiscal outlook. A discussion of the estimated sensitivity of the expenses and revenue estimates to changes in economic parameters is provided in Appendix B of Statement 4.

NET ASSETS AND NET DEBT

The level of Commonwealth general government net debt has fallen consistently since the mid-1990s, from a peak of almost 20 per cent of GDP in 1995-96 to an expected 7.1 per cent of GDP in 2000-01. This means that the Government's target of halving the ratio of Commonwealth general government net debt to GDP by 2000-01 will be comfortably exceeded. This represents a sharp turnaround from the rapid build-up in net debt levels in the first half of the 1990s. In dollar terms, around $50 billion of net debt has been repaid since the Coalition came to office in 1996, reflecting the combined effect of budget surpluses and asset sales, principally Telstra.

The fiscal surpluses in prospect beyond 2000-01 provide the opportunity for Australia to further reduce its net debt in coming years. Factoring in the sale of further equity in Telstra in the projection period from 2001–02 means that net debt can be completely eliminated by 2003-04.

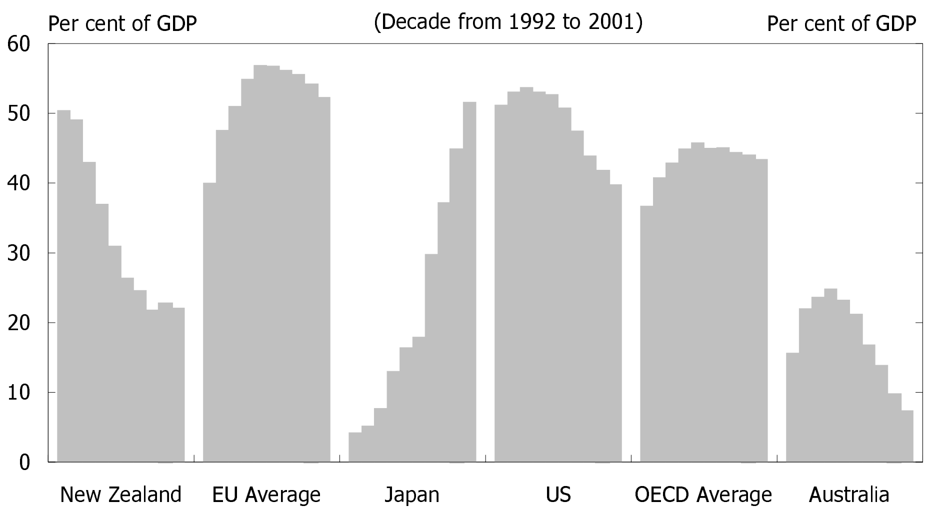
Chart 3: Commonwealth General Government Net Debt[(a)]



(a) Includes the impact of the sale of the Government's remaining shareholding in Telstra.

Australia's government net debt level compares very favourably with levels in other countries (Chart 4). In fact, Australia's net debt is among the lowest in the OECD, with the OECD average at over 40 per cent of GDP.

Chart 4: Government Net Debt Levels in Selected Countries[(a)]



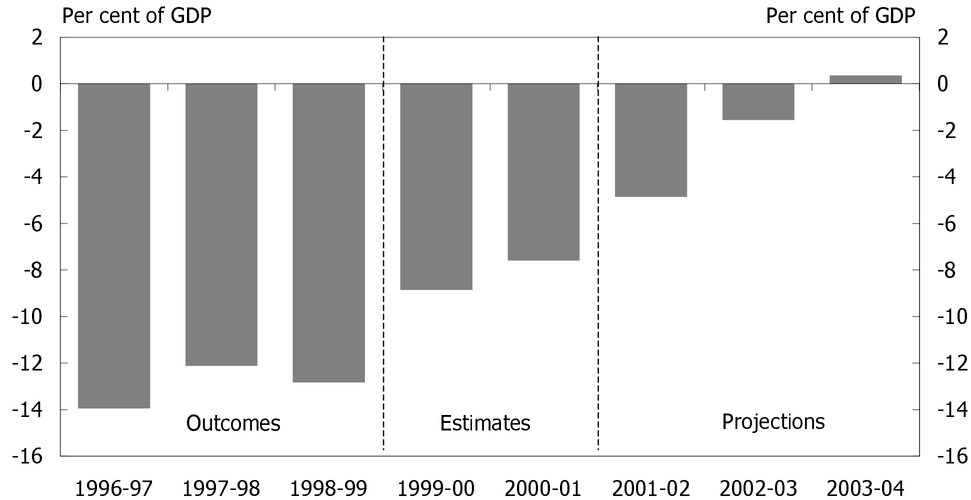
(a) Data are for the total general government sector (that is, the aggregate of all levels of government, including the social security sector but excluding the PTE sector).

Source: *OECD Economic Outlook 66*, Reserve Bank of New Zealand *Monetary Policy Statement*, December 1999, ABS *Public Sector Financial Assets and Liabilities, 1998 (Cat No 5513.0)* and Treasury estimates.

Last year's Budget incorporated, for the first time, a statement of financial position or balance sheet, consistent with the Commonwealth's move to accrual budgeting and reporting.

Chart 5 shows recent trends, current estimates and projections in Commonwealth net asset levels as a share of GDP.

Chart 5: Commonwealth General Government Net Assets



Net assets is defined as physical and financial assets less total liabilities.

Consistent with the Government's objective to improve its net assets position over the medium to long term, net assets are projected to improve over the forward estimates period. This reflects both expected operating surpluses and revaluation effects associated with the proposed sale of the Government's remaining share in Telstra.

Part III: Budget Priorities

In framing the 2000-01 Budget, the Government has given priority to delivering on its commitment to reform the Australian taxation system, including providing for the largest income tax cuts in Australia's history. Priority has also been given to a range of key measures to improve living standards and future economic prospects, particularly in rural and regional Australia.

- Key measures in this Budget will benefit rural and regional Australia through improving rural and regional health services and assisting the rural sector to become more innovative, profitable and sustainable.

- Other key measures will enhance family and community life, fund a number of high priority defence projects and facilitate the transition to digital television services.

Strong economic growth, together with ongoing scrutiny of the efficiency and effectiveness of service delivery, has helped to ensure that surpluses can be maintained and net debt reduced while increased resources can be directed to priority areas.

TAX REFORM

Reform of the tax system is essential for Australia to compete and prosper in a competitive world economy. Importantly, tax reform will also ensure that there is a sustainable revenue base so that government can continue to deliver essential services to the Australian community.

The introduction of *The New Tax System* on 1 July 2000 will deliver to Australians income tax cuts worth $12 billion a year. More than 80 per cent of taxpayers will face a top marginal tax rate of just 30 per cent or less. All pensions and allowances will be increased by 4 per cent, and are guaranteed to remain 2 per cent above what they otherwise would have been. Furthermore, family benefits will be increased by $2.4 billion a year.

The New Tax System replaces a range of inefficient indirect taxes, including the wholesale sales tax and various State taxes and duties, with the Goods and Services Tax (GST). All GST revenue will belong to the States. GST-free status will apply in a number of areas, including fresh and basic foods, most health services, education and exports. In addition, local government rates will not be subject to GST.

To help in the transition to *The New Tax System*, the Government is delivering a $500 million assistance programme to small and medium businesses, community groups and education bodies.

In addition, to ensure that the prices of goods and services are adjusted properly following the introduction of the GST, price monitoring will be undertaken by the

Australian Competition and Consumer Commission (ACCC). Additional funding is being provided to the ACCC in this Budget to expand its monitoring of prices and to assist with covering its legal expenses.

The Government is also in the process of implementing *The New Business Tax System*, in response to the recommendations of the Ralph Committee. These reforms will provide Australia with internationally competitive business tax arrangements, which will create the environment for achieving higher economic growth, more jobs and improved saving.

The New Business Tax System will give Australia one of the lowest company tax rates in the region. The company tax rate has been reduced to 34 per cent for the 2000-01 income tax year, and will fall to 30 per cent thereafter. This is being funded, in part, by the replacement (except for small business) of accelerated depreciation arrangements with an effective life system.

Incentives to save and invest have been improved with the introduction of an internationally competitive capital gains tax regime. For individuals, only 50 per cent of net capital gains on assets, owned for at least 12 months, are now taxed, while, for individual small business taxpayers, 75 per cent on any capital gain on active business assets owned for at least 12 months is now exempt from capital gains tax.

Additional funding has also been provided in this Budget for the implementation of the business tax reforms, including additional resources for the ATO to cover administration and systems costs.

REFORM OF COMMONWEALTH-STATE RELATIONS

In June 1999, Commonwealth, State and Territory Heads of Government endorsed the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations*. The Agreement provides the States with all GST revenues, thereby reducing their reliance on Commonwealth grants. The Agreement also establishes a timetable for the abolition of a range of inefficient State taxes.

These arrangements will provide the States with access to a more robust source of revenue that will grow over time. The State budgets will be substantially better off over the medium term which will ensure they can continue to provide a sustainable level of public services such as hospital, schools and law enforcement. In 2000-01, the States will receive GST revenues totalling some $24 billion.

RURAL AND REGIONAL AUSTRALIA

Rural and regional Australia is an ongoing priority for the Government, with substantial assistance already targeted specifically at the needs and circumstances of regional areas.

In total, an additional $1,828 million in assistance will be provided to rural and regional Australia over the next four years. Key measures are shown in Table 5, with a comprehensive list at Appendix A. Measures in this Budget will: improve rural and regional health; address problems with fuel costs in rural and regional areas; support the competitiveness and profitability of the rural sector; and facilitate the timely introduction of digital television to regional Australia.

The *Regional Health Package — More Doctors, Better Services* is designed to provide more doctors and better health services in rural areas, at a cost of $562 million over four years.

The number of general practitioner (GP) services in rural and regional areas will be significantly boosted through increasing the number of vocational training places for GPs and also increasing the distribution of training places allocated to rural areas. This will boost the number of GP registrars delivering services in rural and regional Australia by at least 75 in 2000-01 rising to at least 225 in 2002-03. Many of these registrars will be likely to practice in rural and regional Australia after their training has ended.

The package includes a longer-term strategy to increase the number of rural doctors through encouraging students from rural areas to study medicine and for graduates to commit to rural practice. The Government will provide $32 million over four years to create 100 bonded scholarships per year. These scholarships will be offered to new medical students each year in return for a commitment to practice in rural areas for at least six years. Medical graduates who commit to practicing in rural areas will be able to reduce their HECS debt. To enable more students with rural backgrounds to undertake medical training, the number of Rural Australian Medical Undergraduate Scholarships will be doubled.

People in rural areas have difficulty accessing specialist medical services. Funding of $48 million over four years will be provided for a specialist outreach programme that will offer incentives and / or pay travel costs to specialists to conduct outreach specialty work. Funding of $49 million over four years has also been provided to improve access to allied health services such as practice nurses, psychologists and physiotherapists.

The Government will make a significant investment in regional based medical education and infrastructure. Funding has been provided for the establishment of nine new clinical schools and three new University Departments of Rural Health over the next three years. This expansion of medical training facilities in regional Australia will increase the opportunity for medical students to complete training in rural service delivery and enhance support for rural health practitioners.

Underpinning these initiatives is funding to improve the health and aged care infrastructure in the country with 85 additional regional health services and assistance to small rural community hospitals and aged care facilities. Regional health services are a flexible way to deliver medical, community health, mental health and aged care services to smaller communities. In recognition of the important role of pharmacists in rural health infrastructure, extra assistance of around $42 million over four years will also be provided to improve access to quality pharmacy services in rural and remote Australia.

The New Tax System will deliver significant benefits to rural and regional Australia. Consistent with its commitment, the Government will reduce excise on petrol and diesel so that the pump price of these commodities for consumers need not rise as a result of the introduction of the GST. In addition, the Government will introduce a Fuels sales grants scheme from 1 July 2000 to reduce the pump price of petrol and diesel in non-metropolitan and remote areas and help address the divergence in fuel prices between city and regional areas. The scheme will cost around $500 million over the next four years and will be tiered to provide a higher grant for sales in remote areas.

Fuel costs for businesses in rural and regional Australia will decrease further due to the availability of credits for GST paid, the expansion of the Diesel Fuel Rebate Scheme (DFRS) and the introduction of the Diesel and Alternative Fuel Grant Scheme (DAFGS). The DFRS will enable eligible business activities, such as agriculture and mining, to claim a full rebate of the diesel excise paid. The DAFGS together with the availability of input tax credits for business, will lower the cost of diesel used in many transport vehicles by around 24 cents per litre. Moreover, *The New Tax System* will cut the cost of both petrol and diesel for all registered business by about 10 per cent.

The Government will provide funding of $309 million over four years for the continuation and enhancement of the *AAA Package*. The *AAA Package* will play a major role in improving the competitiveness, sustainability and profitability of the farming sector, whilst retaining essential elements of social welfare. The package includes a range of initiatives to enhance farmer skills training, encourage innovation, improve market access for our agricultural and food exports and enhance support to families in financial difficulty.

The Government will provide regional and remote commercial television broadcasters with assistance in the digital conversion process from 2000-01 under the *Regional Equalisation Plan*. Assistance of around $100 million will be provided over the next four years primarily in the form of annual licence fee rebates. Total assistance over the life of the plan will be up to $260 million.

The Government will increase from 50 per cent to 75 per cent the discount for all farm and business assets for the Youth Allowance family assets test. This responds to concerns that the former family assets test may have imposed a disincentive for young people from families with farm and small business assets to continue education and training. In recognition of the high cost of education for people living in remote parts of Australia, the Government is increasing funding under the Assistance for Isolated Children Scheme by $16 million over the next four years.

Table 5: Additional Assistance to Rural and Regional Australia

	2000-01 $m	2001-02 $m	2002-03 $m	2003-04 $m	Total $m
Regional Health Package - More Doctors, Better Services					
New general practitioner registrars	10	21	32	40	102
Medical training - additional university departments of rural health and clinical schools	9	25	38	46	118
Regional health services expansion	5	14	22	28	69
Medical specialist outreach assistance	5	14	15	15	48
More allied health services	11	11	13	15	49
Bonded scholarships for medical students to practice in rural areas	3	6	10	13	32
Enhanced Rural and Remote Pharmacy Package	8	12	11	11	42
Other Regional Health Package measures	18	23	28	33	102
Total	**68**	**127**	**167**	**201**	**562**
Fuels Sales Grants Scheme	121	120	125	135	501
Continuation of the Agriculture-Advancing Australia Package	38	74	91	107	309
Increase in Youth Allowance assets limits for farms and businesses	19	37	38	39	132
Regional equalisation plan for digital television	23	23	27	27	100
Other rural and regional measures	59	60	60	45	224
Total additional assistance	**327**	**441**	**508**	**553**	**1828**

A HEALTHY AUSTRALIA

In addition to the health initiatives in this Budget specifically directed at rural and regional Australia, important measures in the areas of population health and safety and improved medication management will deliver benefits more broadly.

Extra funding has already been announced since MYEFO for public hospitals and nursing homes. Additional funding to the States of around $650 million will be provided over the last four years of the Australian Health Care Agreements. This will further increase the States' capacity to improve public hospital services. The Government has also recently announced that it will provide around $240 million over three years to public and not-for-profit hospitals to assist with the transition to the new fringe benefits tax arrangments. An extra $148 million over six years in residential aged care subsidies will deliver a common rate of subsidy across the States and facilitate improvements in the quality of care.

The 2000-01 Budget provides additional funding of $93 million over four years for population health and safety measures, including for food standards and regulation and significantly reducing the risk of transmission of blood borne diseases though blood and blood products.

Measures in this Budget are designed to improve the management of Pharmaceutical Benefits Scheme (PBS) medications. Consumers will be able to opt into a new electronic medication records arrangement, where those consumers and their practitioners or pharmacists can access their personal medication records and safeguard against potentially dangerous drug interactions. Safety net entitlements for eligible consumers will also be able to be automatically calculated.

As part of the ongoing management of the PBS, and on advice from the Pharmaceutical Benefits Advisory Committee, most nasal sprays will be deleted from the PBS, providing savings of around $62 million over the next four years. More generally, improved pharmaceutical benefits entitlement monitoring is expected to ensure that benefits are not provided inappropriately to persons who are not eligible for the subsidy.

The Department of Veterans' Affairs will assume responsibility for home and community care like services for entitled members of the veteran community. This initiative will increase the number of veterans who receive these services, improving the well-being and independence of veterans through the provision of better targeted support in the home. Non-veterans will also benefit because places will be freed up in the existing Home and Community Care (HACC) programme. HACC is a successful preventive measure aimed at deferring the need for the elderly to enter residential care.

The Government has met its election commitment to respond to the findings of the Vietnam Veterans' Health Study with a package in this Budget that will improve the health of veterans and their family members.

STRONGER FAMILIES

Implementation of *The New Tax System* will provide significant financial assistance to families through tax cuts, increased family benefits, and reductions in family benefit withdrawal rates.

The recently announced Stronger Families and Communities Strategy will invest an additional $240 million over four years in: early intervention parenting and family relationships support; encouraging community leadership, volunteering and partnerships; helping communities tackle their own challenges; and developing a more thorough understanding of Australian society and its needs. The Strategy has a particular focus on assisting communities in rural and regional Australia.

The major component of this Strategy is an additional $65 million over four years to assist families to fulfill both work and family responsibilities through increased flexibility and choice of childcare. Subsidies for in-home care and incentives for the establishment of child care centres in rural areas where there is a recognised need will be provided. Families who will particularly benefit from this proposal include families working outside standard business hours; families who have a sick child; and families who live in rural and regional areas.

The Budget also includes a package of Child Support measures that will improve post-separation relationships, encourage parents to maintain contact with their children after separation and help payers support the children of their subsequent families. For example, to encourage parents to maintain contact with their children following separation or divorce, the Government will modify the child support formula to recognise the additional costs faced by parents who maintain contact with their children. A specific and transparent allowance for the cost of caring for a child between 10 per cent and 30 per cent of the nights of the year will be incorporated into the child support formula. In such cases, the child support formula will be reduced by either two or three percentage points depending on the level of contact.

A Fair and Effective Welfare System

Consistent with maintaining a sustainable social safety net and promoting equity, this Budget introduces further measures to ensure government assistance is targeted to the most disadvantaged. In particular, enhanced compliance with the eligibility criteria for income support is expected to deliver savings of around $171 million over four years. Another key measure will amend the means test treatment of private trusts and private companies for social security purposes to ensure that beneficiaries who hold their assets in private companies or trusts receive the same treatment under the means test as those beneficiaries who hold their assets directly. This is expected to deliver savings of around $300 million over the next four years.

The Government will also introduce a *Preparing for Work Agreement* for new claimants of unemployment payments. These agreements will increase compliance with mutual obligations requirements, ensure that beneficiaries are aware of their rights and obligations associated with grant payments and streamline unemployment processes. One-to-one assistance with the same designated Centrelink officer will encourage the economic participation of the unemployed people involved. The agreement will deliver a strong 'up-front' message to all job seekers that they must meet their obligation to actively job search and participate in a range of additional activities in return for receiving unemployment payments.

Science and Technology

The Government has allocated funding of $31 million over four years in this Budget primarily to encourage the commercialisation of biotechnology research. Biotechnology offers economic opportunities for Australia, based on our existing research strengths in agriculture and medicine. Substantial funding is already provided for biotechnology research. The 1999-2000 Budget established a consistent regulatory regime for biotechnology and improved management of intellectual property as well as providing an additional $614 million over six years from 1999-2000 to the National Health and Medical Research Council for health and medical research, including in the area of biotechnology.

Further, $70 million has been allocated to facilitate the development of Gas to Liquid fuel technology in Australia. This should put Australia at the forefront of innovation in this field, with the possibility of greatly expanding the commercial potential of Australia's gas resources.

From 1 July 2000 a five cent per litre levy will apply to lubricating oils and similar products to fund payments to waste oil recyclers and reusers to support the sustainable management of waste oil. The Government has already committed $60 million over four years for transitional assistance to facilitate the appropriate disposal of waste oil.

COMMUNICATIONS AND THE ARTS

This Budget contains substantial measures to promote the transition to digital television services for the Australian Broadcasting Corporation (ABC), Special Broadcasting Service Corporation (SBS) and regional broadcasters. Digital television will allow viewers to receive broadcasts of widescreen, high definition programmes and interactive entertainment.

The funding for the ABC and SBS builds on the first tranche of assistance the Government provided to the national broadcasters in the 1998-99 Budget for the initial digital upgrade of their production and studio equipment. *The Regional Equalisation Plan* outlined above will assist regional and remote broadcasters during the transition to digital television services.

This Budget also makes provision for the continuation of triennium funding for the ABC and SBS.

Funding for the Australian Film Finance Corporation (AFFC) will be maintained at $50 million per annum. This will allow the AFFC to continue to play a key role in the production of Australian film and television programmes. The Budget will also provide $43 million over four years to implement the main recommendations of the Major Performing Arts Inquiry, with $34 million of this being additional funding and the balance from reprioritising within the portfolio. In partnership with the States, this will place the major performing arts companies on a firm artistic and financial footing.

A SECURE AUSTRALIA

The Government is in the process of a major review of Australia's defence requirements and will release a Defence White Paper later in the year. In this Budget the Government has provided a one-off increase of $100 million in 2000-01 to address priority areas. This will support defence force reserves and improvements in information management systems and logistic support.

This Budget also contains $128 million in additional funding in 2000-01 for the enhancement of two Collins Class submarines. The upgrade will result in two operational Collins submarines when the final Oberon Class submarine retires in 2001.

The Government has also agreed to a programme of Defence property sales. The sales mainly involve metropolitan office sites which are being sold in accordance with Commonwealth Property Principles.

BORDER INTEGRITY

This Budget introduces further measures to counter increases in unauthorised immigration. This includes a coordinated effort across government agencies to identify and combat people smuggling at its source and initiatives to improve the prospects of displaced persons through repatriation to home countries, integration in first asylum countries or resettlement in third countries. Mutual obligation and other welfare requirements are also being expanded to temporary protection visa holders. The establishment of a new detention facility in Darwin and streamlined assessment procedures will achieve ongoing reductions in detention costs.

In addition, a long-term strategy focusing on future detention requirements for unauthorised arrivals and visa over-stayers is being introduced. The strategy ensures that appropriate detention capacity will be available in the future.

EAST TIMOR

The Government is supporting the United Nations efforts to rebuild a secure East Timor. This has involved a significant deployment of Australian Defence Force and Australian Federal Police personnel. The Government has also provided assistance to refugees and aid for humanitarian relief and reconstruction. Table 6 summarises the financial cost to Australia.

The main cost arises from Australia’s Defence commitment to East Timor, estimated to cost $945 million in 2000-01 and significant amounts in later years. This is down from the estimated cost at MYEFO of $1,089 million in 2000-01. In particular the success of the INTERFET operation and the smooth transition to UN Transitional Administration in East Timor (UNTAET) has lowered the expected costs from deployment. Other contributing factors to the reduction in costs include logistical support from the United States and lower defence personnel costs.

This Budget provides significant additional funding to assist East Timor in its transition to nationhood. Now that the situation in East Timor appears to have stabilised, the focus of aid over the next few years will shift to restoring basic services and improving governance while continuing to provide necessary humanitarian relief. This Budget provides $150 million in foreign aid to support East Timor, with $100 million of this being extra funding. This initiative builds on the funding of $75 million provided to meet the humanitarian and reconstruction needs of East Timor in 1999-2000.

Last year, the Government agreed to increase Australia’s commitment to the UNTAET civilian police force from our first detachment of 50 personnel to 80 personnel. The

Government will continue its commitment of up to 80 deployed civilian police in East Timor by providing additional funding of around $104 million over the four years to 2002-03.

The UN will reimburse Australia for some of the costs of the Australian Defence Force deployment in East Timor in accordance with UN standard rates of reimbursement for troop contributing countries involved in UN Peacekeeping Missions.

Table 6: Net Cost of East Timor

	1999-00 $m	2000-01 $m	2001-02 $m	2002-03 $m	2003-04 $m	Total(a) $m
Expenses						
Defence						
Australian Defence Forces	731	922	736	669	675	3002
Tax exemption for ADF personnel in East Timor	62	23	23	23	23	92
Non-Defence						
Australian Federal Police	26	25	26	26	27	104
Aid	75	40	40	35	35	150
Provision of safe haven for evacuees	21	-	-	-	-	-
Australian Quarantine and Inspection Service	-	2	2	2	2	8
Revenue						
Defence						
UN reimbursement	18	114	106	76	76	372
Net cost of East Timor	**897**	**898**	**721**	**679**	**686**	**2984**

(a) Total cost over four years from 2000-01.

Part IV: Fiscal Strategy

The 2000-01 Budget has been framed within the Government's medium-term fiscal strategy. The primary objective of the strategy is to achieve fiscal balance on average over the course of the economic cycle. With the budget now in surplus, the supplementary objectives of the fiscal strategy are:

- maintaining fiscal surpluses over the forward estimates period while economic growth prospects remain sound;

- no increase in the overall tax burden from its 1996-97 level; and

- improving the Commonwealth net assets position over the medium to longer term.

The 2000-01 Budget continues to meet these objectives. The Government has also met its objectives to halve the ratio of Commonwealth general government net debt to GDP by the turn of the century, from its 1995-96 level, and reduce the ratio of expenses to GDP over the same period.

Rationale and Benefits of the Medium-Term Fiscal Strategy

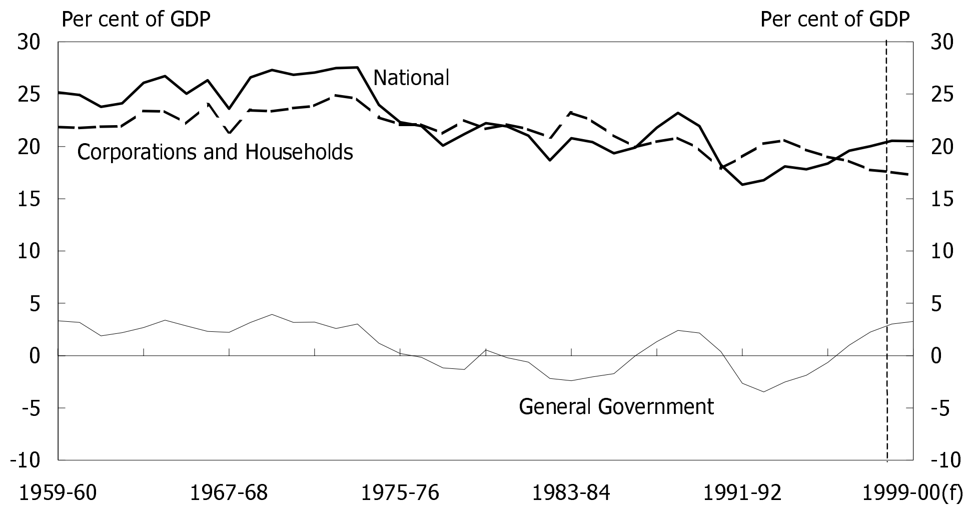
The Government's fiscal strategy is directed at ensuring that public finances are sustainable, and government spending is not financed by an accumulation of net liabilities over time. This contributes to a fair distribution of the burden of funding spending over the medium to longer term, as the cost of current spending is met by current taxpayers, and not passed forward to future generations through borrowing.

Improving the Government's net assets position reduces net interest payments, allowing a reduced tax burden or increased spending on services. This will help in managing future increases in health, aged care and pension costs associated with the ageing of the population.

A key element of prudent fiscal policy is that it helps create the conditions for maximising sustainable economic growth. Importantly it can contribute to national saving, facilitate a lower interest rate environment, promote steady and sustainable demand growth, provide a reasonable degree of stability and predictability of policy, and provide for efficient government taxation and spending.

Achieving fiscal balance on average over the economic cycle implies a positive level of Commonwealth general government saving (equal to general government investment). Government saving will be significantly higher than was achieved over the two decades to the mid-1990s, when governments dissaved on average, largely as a result of underlying Commonwealth deficits averaging around 1½ per cent of GDP (see Chart 6).

Chart 6: Components of National Saving[(a)]



(a) Gross saving and capital transfers
Sources: ABS Cat. No's 5204.0 and 5206.0; Treasury

Attaining this objective will improve the Commonwealth's currently negative net assets position over time, as net investment is likely to remain positive. Net debt will be stable in nominal terms over the full course of the cycle, and as the economy grows net debt will decline as a proportion of GDP. This abstracts from equity asset sales, the proceeds of which are being used primarily to further reduce net debt.

Privatisation can also improve the government net assets position, to the extent that the value of the asset is greater in private hands than in the Government's. These higher valuations reflect the potential efficiency gains achieved from subjecting assets and management to market disciplines[2].

In addition to its effects on the Government's own net assets position, improving government saving can also contribute to national saving. From a national perspective, movements in government saving may be offset to some degree by changes in private saving, but that offset is likely to be only partial. While some economists have argued that increases in public saving may be largely offset by decreases in private saving, most economists reject this proposition because private agents are unlikely to see government saving as a good substitute for private saving.

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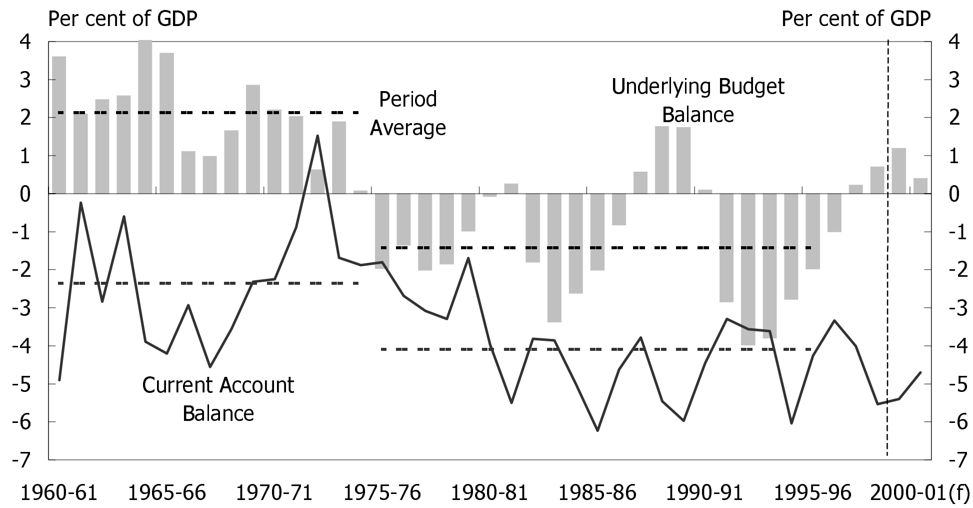
2 The effect on the net assets position is also dependent on accounting valuation conventions. Consistent with accounting standards, government equity assets, notably Telstra, are recorded in the Commonwealth's balance sheet at historic cost when the government has effective control (that is, a capacity to dominate decision making) of an entity. The historic cost of the Government's 50.1 per cent stake in Telstra is considerably below the equivalent value of 50.1 per cent of Telstra's shares.

At any point in time other factors, particularly cyclical conditions, may mask the link between government and national saving. However, Chart 6 shows that the trend decline in general government saving between the mid-1970s and the mid-1990s was associated with a trend decline in national saving over the same period. It seems reasonable to conclude that part of the trend decline in national saving during that time was caused by the decline in government saving.

The current account deficit (CAD) reflects the gap between national investment and saving. Chart 7 suggests that the decline in the average budget balance from the mid-1970s to the mid-1990s was a significant factor in the increase in average CADs from that time.

Chart 7: Current Account and Commonwealth Underlying Cash Balances[(a)]



(a) The budget balance data are for the general government sector, except in 1960-61 and 1961-62, in which cases the data are for the budget sector.
Sources: ABS Cat. No's 5206.0 and 5302.0; Treasury

Improving government saving, and thereby national saving, will not translate one for one into reductions in the CAD. Improved government saving may have a positive impact on private investment, offsetting some of the decline in the current account deficit that would otherwise occur. When the Government is not drawing on private domestic saving, this provides a greater supply of domestic saving to finance private investment. This may result in lower market interest rates than otherwise, encouraging investment.

The fiscal strategy is not directed at particular current account outcomes, however, but at addressing one of the underlying contributors to unsustainable current account deficits: namely, unsustainable government borrowing. Whatever the combination of a lower CAD and higher investment that results, national income in the future will be higher than would otherwise be the case. That is, to the extent that the current account is reduced, the proportion of future output paid to foreign lenders will be lower, while, to the extent that a greater supply of domestic saving can finance greater investment, future output will be increased.

Sound fiscal policy can limit the risk premia attached to interest rates. Rising levels of government debt and uncertainty regarding future policy can weigh on investors' confidence, such that they require higher interest rates to induce them to finance Australian debt, both for government and private issuers. This is of some importance given Australia has a relatively high and variable CAD, which may make us more exposed to shifts in investor sentiment. The medium-term strategy assures investors that the CAD over time will largely be based on private sector decisions subject to market disciplines. This is likely to have contributed to the marked fall in Australia's long-term interest rate differentials with the major economies since 1996.

While the fiscal strategy aims to improve on past levels of government saving, the focus of policy should principally be to maintain surplus levels which are prudent and sustainable. Australia now has net government debt which is comparatively very low and faces less future budgetary pressure from population ageing than most developed countries.

SUSTAINING THE MEDIUM-TERM STRATEGY

Sustaining the medium-term strategy requires an assessment of what surplus levels are needed at this stage of the economic cycle, in order to achieve balance over a full cycle. This in turn requires consideration of both the role of fiscal policy and the nature of the economic cycle.

As the budget balance is influenced by variations in the economy over the course of the economic cycle, some level of surplus is required at the present stage of the cycle in order to ensure that policy remains 'on track' to achieve balance on average. Allowing some degree of fluctuation in the budget position over the course of the cycle in response to 'automatic stabilisers' should generally be appropriate.[3] While there may also be a role for discretionary policy to manage cyclical extremes — recession or overheating — there is a need for caution in using discretionary policy to actively manage demand.

First, there are considerable uncertainties surrounding baseline economic forecasts, with turning points in the cycle particularly difficult to predict. In addition, it generally takes some time to recognise turning points and to formulate and implement policy responses. Further, fiscal policy tends to work with variable lags and uncertain effects.

Second, the potency of fiscal policy is likely to be lower today than in the past as a consequence of the floating of the exchange rate and increasingly mobile global capital.

3 The term 'automatic stabilisers' refers to the tendency of the budget balance to move towards surplus during economic upturns and deficit during recessions. This tendency arises because taxation receipts rise and outlays, particularly on unemployment benefits, fall during upturns and vice versa during recessions.

This arises because a fiscal expansion, all else equal, will mean an increased call on foreign savings. The resulting capital inflow tends to appreciate the exchange rate, ‘crowding out’ the export and import-competing sectors of the economy.

Third, a fiscal policy response may not always be appropriate to changing economic circumstances. An example would be a shock to the price of factors of production (for example, a large increase in wages not matched by productivity) which might cause a short-term fall in output and employment. A fiscal stimulus to demand may provide a short term boost to output but, because this could not be sustained, would merely delay the inevitable process of adjustment required to re-establish balance in the economy.

A common approach to assessing the character of the budget balance at any point in the cycle is to decompose the balance into structural and cyclical elements. The latter part reflects the ‘automatic stabiliser’ effects on the budget of deviations of current output from the economy’s long-term growth trend, which should net out over the course of an entire cycle. Adjusting the budget balance for these cyclical effects can provide an indication of how much of the fiscal position is structural, and therefore likely to persist as the economy moves back to trend.

There is, however, considerable difficulty in putting this into practice. The long-term trend is difficult to identify. Cycles are not regular or predictable and past experience may not provide a good guide to current or future cycles, particularly when the economy has been undergoing structural reforms that raise the trend growth rate over the medium term, leading to permanently higher economic capacity and output.

The large budget balance swings, of around 4 to 6 per cent of GDP, associated with cycles since the 1970s reflect both the automatic stabiliser impacts of severe recessions and the associated fiscal policy responses.

In these circumstances, even quite large surpluses at previous cycle peaks were insufficient to achieve balance over the full cycle. However, against the background of the Government’s medium-term economic policy framework, there are sound reasons to believe that future cycles should be different from recent cycle experiences.

Structural reform has improved the operation of the labour market and raised the productivity growth trend in the current expansion and is likely to have reduced the unemployment rate at which inflationary pressures emerge. This should allow a lower average unemployment rate to be achieved over future cycles compared with that achieved in the past twenty years. In turn, a lower average unemployment rate in the future would mean that a lower budget balance is required to achieve a structurally balanced budget than would be the case if the future average unemployment rate matched the experience of past cycles.[4]

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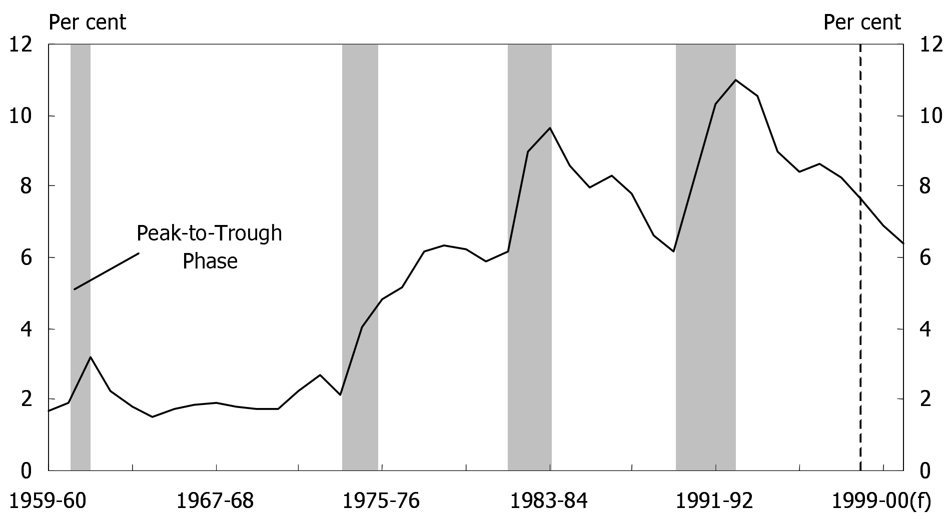
4 Consider an economy running a balanced budget at the time that the actual unemployment rate equaled the medium to longer-term average unemployment rate. Such an economy would be said to be in structural budget balance. Now consider the same economy running a

Uncertainty surrounds the economy's long-term growth trend, but present indications are that the economy still has some way to go before it reaches full capacity. The economy may tend to operate somewhat below full capacity on average over the cycle, but providing the current sound policy framework remains in place, the average unemployment rate achievable over future cycles is likely to be somewhat lower than the current rate of unemployment. On that basis, a substantial part of the forecast 2000-01 and projected out-year surpluses would be structural.

In addition, while business cycles are inherently difficult to predict, the macroeconomic policy framework that the Government has put in place can reduce the risk of severe recessions that might otherwise arise from policy responses to an overheating economy. This policy framework can also allow a more orderly response by the economy to external factors. For example, the orderly depreciation of the exchange rate in response to the Asian crisis was an important factor in preventing recession in the Asian economies from impacting significantly on domestic growth. Structural changes in the economy are also likely to have increased its ability to adjust to disturbances[5]. This suggests that it should be possible to achieve a more favourable cyclical experience, on average, than was achieved in the 1980s and early 1990s (Chart 8).

Chart 8: Economic Cycles as Reflected in the Unemployment Rate[(a)]



(a) Year average, with data from 1978-79 onwards on a Labour Force Survey basis.
Sources: ABS Cat. No's 1364.0 and 6202.0; Treasury.

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balanced budget, with the same unemployment rate, but the medium to longer-term average unemployment rate could be expected to be lower than the current rate. Such an economy would now be said to be running a structural surplus in that maintaining current policy settings would be expected to achieve a fiscal surplus on average over the entire cycle.

5 For a detailed discussion, see 'The Business Cycle – Developments in the Economy's Response to Disturbances', *Economic Roundup*, Summer 1998.

These factors suggest that consideration of the surplus levels needed to adhere to the medium-term strategy should not be based on the experience of recent cycles.

FISCAL POLICY IN 2000-01 AND BEYOND

The key issue for the 2000-01 Budget is the funding of *The New Tax System* reform package while keeping policy consistent with the medium-term fiscal strategy and appropriate to the needs of the economy. The changes to *The New Tax System* required to secure passage of the reform package through the Senate significantly increased the cost of the package, further reducing the underlying cash surplus in 2000-01. Despite this, the Government has continued to adhere to the medium-term strategy and the budget will remain in structural surplus in 2000-01.

Although the package will add to private incomes in the short term, this will be partly reflected in savings because of tax and other influences on spending. Moreover, tax reform will provide an ongoing boost to productive capacity that will help to sustain stronger growth over the medium term. This in turn will yield benefits to the budget over time that will assist future achievement of fiscal objectives.

As noted, structural reforms are increasing the economy's medium-term growth potential and allowing it to sustain lower unemployment. With an improved macroeconomic policy framework, this means that the economy's future performance should be better than recent economic cycles. Part of the fiscal dividend from this structural improvement can be allocated to tax reductions and carefully targeted new spending, while still maintaining a sound budget position.

Maintaining solid surpluses over the rest of the expansion will be important to continued good economic performance. The forward estimates indicate that the medium-term fiscal position remains sound. The large surpluses in the later outyears need to be treated with some caution, in view of the uncertainties affecting the projections and the 'no policy change' assumptions on which they are based. Nevertheless, appropriate surpluses should be achievable while economic growth remains sound. The Government will continue to assess economic developments and will set fiscal policy each year in the light of the outlook at that time and the requirements of sound economic management.

Appendix A: Rural and Regional Initiatives

Table A1: Rural and Regional Measures

	2000-01 $m	2001-02 $m	2002-03 $m	2003-04 $m
EXPENSES				
Agriculture, Fisheries and Forestry				
Department of Agriculture, Fisheries and Forestry				
Assistance to farmers in central north-east South Australia	1.1	1.0	-	-
Building a national approach to animal and plant health	4.5	6.3	6.2	5.3
Continuation of the Agriculture - Advancing Australia Package	37.8	74.2	90.7	106.7
Exceptional circumstances recovery assistance	0.4	-	-	-
Portfolio total	**43.8**	**81.5**	**96.9**	**112.0**
Communications, Information Technology and the Arts				
Australian Communications Authority				
Universal service obligations contestability arrangements	1.8	1.0	1.0	1.0
Department of Communications, Information Technology and the Arts				
Regional Communications Partnership Fund	-	-	-	-
Regional Equalisation Plan for digital television - taxable grants	-	-	0.3	0.3
Portfolio total	**1.8**	**1.0**	**1.3**	**1.3**
Education, Training and Youth Affairs				
Department of Education, Training and Youth Affairs				
Additional resourcing for the Assistance for Isolated Children Scheme	2.2	4.5	4.8	5.1
Regional Health Package - More Doctors, Better Services	1.8	3.6	5.8	8.1
Portfolio total	**3.9**	**8.0**	**10.5**	**13.1**
Employment, Workplace Relations and Small Business				
Department of Employment, Workplace Relations and Small Buisiness				
Dairy Regional Assistance Programme	15.0	15.0	15.0	-
Portfolio total	**15.0**	**15.0**	**15.0**	**-**
Family and Community Services				
Department of Family and Community Services				
Continuation of payment to voluntary work agencies	1.2	1.6	1.6	1.7

Table A1: Rural and Regional Measures (continued)

	2000-01 $m	2001-02 $m	2002-03 $m	2003-04 $m
Family and Community Services *continued*				
Expansion of the Community Development Employment Projects Scheme	-6.9	-14.2	-14.6	-15.0
Extension of the Retirement Assistance for Farmers Scheme	1.5	1.9	1.9	2.0
Increase in Youth Allowance assets limits for farms and businesses	18.5	36.8	37.7	38.6
Portfolio total	**14.3**	**26.1**	**26.6**	**27.3**
Finance and Administration				
Department of Finance and Administration				
Assistance to farmers in central north-east South Australia	-	-	-	-
Portfolio total	**-**	**-**	**-**	**-**
Health and Aged Care				
Department of Health and Aged Care				
National radiotherapy single machine unit trial	1.0	2.9	2.9	2.9
Regional Health Package - More Doctors, Better Services	66.2	123.0	161.3	192.5
Subsidisation of the accreditation fee for small residential aged care facilities	1.8	1.3	1.3	1.9
Portfolio total	**69.0**	**127.2**	**165.5**	**197.4**
Prime Minister and Cabinet				
Aboriginal and Torres Strait Islander Commission				
Expansion of the Community Development Employment Projects Scheme	9.2	19.0	19.5	20.0
Torres Strait Regional Authority				
Expansion of the Community Development Employment Projects Scheme	0.5	1.0	1.1	1.1
Portfolio total	**9.7**	**20.1**	**20.6**	**21.1**
Transport and Regional Services				
Department of Transport and Regional Services				
Beef 2000 Exposition	-	-	-	-
Provision of services to the Indian Ocean Territories	2.9	2.9	2.9	2.9
Year 2002 - Year of the Outback	-	0.2	0.4	-
Portfolio total	**2.9**	**3.1**	**3.3**	**2.9**
Treasury				
Australian Taxation Office				
Administration of the Fuels Sales Grants Scheme	9.5	-	-	-
Fuels Sales Grants Scheme	110.0	120.0	125.0	135.0
Portfolio total	**119.5**	**120.0**	**125.0**	**135.0**

Table A1: Rural and Regional Measures (continued)

	2000-01 $m	2001-02 $m	2002-03 $m	2003-04 $m
Veterans' Affairs				
Department of Veterans' Affairs				
Extension of the Retirement Assistance for Farmers Scheme	0.4	0.3	0.3	0.4
National radiotherapy single machine unit trial	..	..	..	..
Portfolio total	**0.4**	**0.3**	**0.3**	**0.4**
Total expense measures	**280.3**	**402.3**	**465.1**	**510.5**
REVENUE				
Communications, Information Technology and the Arts				
Australian Broadcasting Authority				
Regional equalisation plan for digital television - licence fee rebates	-22.6	-22.6	-26.9	-27.1
Portfolio total	**-22.6**	**-22.6**	**-26.9**	**-27.1**
Total revenue measures	**-22.6**	**-22.6**	**-26.9**	**-27.1**
CAPITAL				
Transport and Regional Services				
Department of Transport and Regional Services				
Indian Ocean Territories Infrastructure Development Programme	21.9	15.7	15.7	15.7
Portfolio total	**21.9**	**15.7**	**15.7**	**15.7**
Treasury				
Australian Taxation Office				
Administration of the Fuels Sales Grants Scheme	1.7	-	-	-
Portfolio total	**1.7**	**-**	**-**	**-**
Total capital measures	**23.6**	**15.7**	**15.7**	**15.7**
TOTAL ASSISTANCE TO RURAL AND REGIONAL AUSTRALIA	**326.5**	**440.6**	**507.7**	**553.3**

Appendix B: Fiscal Reporting Standards

Budget estimates in the 2000-01 Budget are presented on both a Government Finance Statistics (GFS) and an Australian Accounting Standard 31 *Financial Reporting by Governments* (AAS31) basis.

Box B1: GFS and AAS31 Reporting Frameworks

GFS Framework

The GFS reporting framework (refer to Statement 8) is a specialised statistical system designed to support economic analysis of the public sector. The framework allows comprehensive assessments to be made of the economic impact of government. The GFS framework is consistent with international statistical standards.

GFS statistics have previously been presented on a cash basis. The first presentation by the Australian Bureau of Statistics of public finance statistics on an accrual GFS accounting basis was contained in the 1999-2000 issue of *Government Financial Estimates, Australia* (Cat. No. 5501.0), released in April 2000.[6]

AAS31 Framework

AAS31 (Statement 4) requires governments to prepare accrual-based general purpose financial reports, including in relation to the assets they control, any liabilities incurred, and their revenues and expenses. This reporting is intended to provide a consolidated overview of the financial performance and position of government, including in the area of financing and investing activities. Users are not able to obtain this overview by analysing all of the individual financial reports of the many entities controlled by Commonwealth, State and Territory governments due to the existence of intra-government transactions.

Under AAS31, governments must prepare an operating statement (also known as a statement of revenues and expenses, or profit and loss statement), a statement of financial position (or balance sheet) and a statement of cash flows.

There is a general consistency of treatment between the GFS and AAS31 standards. Definitions of the scope of the public sector agree in almost all cases, as does the segmentation of the public sector into subsectors.

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6 The ABS information paper titled *Accruals-based Government Finance Statistics 2000* (Cat. No. 5517.0), released in March 2000, outlines the conceptual changes to the GFS framework and the changed format for GFS tables.

There are significant differences, however, in the treatment of some items. In particular, revaluations of financial and non-financial assets and liabilities are classified differently under AAS31 and GFS standards. Such transactions include, for example, gains or losses from foreign exchange rate variations.

Under AAS31 reporting, valuation changes may affect revenues or expenses. 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. Moreover, most revaluations are not taken into account in the calculation of the GFS net operating balance.

Other differences between the two standards include the treatment of items such as provisions or allowances for doubtful debts, extraordinary items and finance leases.

In addition, since MYEFO, the Australian Bureau of Statistics (ABS) has revised the Australian GFS treatment of net cash settlement payments related to some financial derivatives (swaps and forward rate agreements), which has introduced another classification difference between the two standards.

The ABS change to the GFS classification is in accordance with revisions to the international statistical standards *System of National Accounts 1993* (SNA93) and the *IMF Balance of Payments Manual* (BPM5) adopted by the Inter-Secretariat Working Group on National Accounts and the IMF Committee on Balance of Payments Statistics.

Prior to these revisions, both SNA93 and BPM5 recommended that net cash settlement payments associated with these financial derivatives be recorded as property income (that is, interest revenues or interest expenses).

However, the IMF now considers this treatment to be inconsistent with the SNA93 definition of property income and has reclassified these transactions as financing items. Therefore, net cash settlement payments associated with these financial derivatives are no longer GFS revenues or expenses. The IMF has reflected this revised treatment of financial derivatives in the current draft of the second edition of its *Manual on Government Finance Statistics*. This revision was also ratified by the United Nations Statistical Commission at its annual meeting in early March 2000.

Nevertheless, these transactions continue to be treated as operating transactions (that is, as revenues and expenses) under Australian Accounting Standards.

Table B1 reconciles the GFS and AAS31 revenue and expenses estimates.

Table B1: Reconciliation of GFS and AAS31 Revenue and Expenses Estimates

	Estimates		Projections		
	1999-00 $m	2000-01 $m	2001-02 $m	2002-03 $m	2003-04 $m
GFS revenue (Statement 8, Appendix C)	**164664**	**177528**	**186599**	**197356**	**211201**
less GST revenue for States and Territories	0	24053	28029	29083	30737
GFS revenue (Statement 1)	**164664**	**153475**	**158570**	**168272**	**180464**
plus foreign exchange gains	0	0	0	0	0
plus other economic revaluations	0	0	0	0	0
plus profit on the sale of assets	1333	2805	53	69	41
plus swap interest received	1943	2348	2530	2692	2738
plus revenue allocated to GFS expenses	91	89	93	99	101
AAS31 revenue (Statement 5)	**168032**	**158718**	**161246**	**171131**	**183344**
GFS expenses (Statement 8, Appendix C)	**155248**	**174332**	**184514**	**189172**	**196192**
less GST grants to States and Territories	0	24053	28029	29083	30737
GFS expenses (Statement 1)	**155248**	**150279**	**156485**	**160089**	**165455**
plus revalutions/writedowns from superannuation	40	-30	78	-9	6
plus net writedown of assets/bad and doubtful debts	856	808	835	878	929
plus foreign exchange losses	397	3	0	0	0
plus other economic revaluations	64	221	0	0	0
plus loss on the sale of assets	51	4	1	1	1
less costs of asset sales	171	0	218	218	0
less other property expenses	0	0	0	0	0
plus swap interest paid	1816	2357	2455	2584	2569
plus revenue allocated to GFS expenses	91	89	93	99	101
AAS31 expenses (Statement 6)	**158392**	**153732**	**159728**	**163424**	**169061**

A further issue in regard to the reporting standards is that the Commonwealth revenue and expenses estimates in Budget Statements 1, 4, 5, 6 and 8 (except for Appendix C) do not include GST collections and equivalent payments to the States. Under the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* (the IGA), all GST revenue is appropriated to the States and Territories.

While for constitutional reasons the GST is levied by the Commonwealth, and can therefore be technically considered a Commonwealth revenue under the reporting standards, the clear policy intent of the IGA is that it is a State tax collected by the Commonwealth in an agency capacity. Estimates of GST revenues are provided in Table B1. Further details are provided in *Budget Paper No. 3 — Federal Financial Relations.*

Table B2 reconciles the accounting net operating result to the GFS net operating balance and the fiscal balance (GFS net lending). The fiscal balance measures the extent to which the Government is adding to or drawing from the national savings pool and contributing directly to the current account deficit.

Table B2: Reconciliation of AAS31 Net Operating Result and Fiscal Balance Estimates

	Estimates		Projections		
	1999-00 $m	2000-01 $m	2001-02 $m	2002-03 $m	2003-04 $m
AAS31 operating result before extraordinary items (Statement 4)	**9640**	**4985**	**1517**	**7707**	**14283**
Net classification differences	-224	-1789	568	476	726
GFS net operating balance (Statement 8)	**9416**	**3196**	**2085**	**8183**	**15009**
less purchase of property, plant and equipment and intangibles	4393	4884	4592	4567	4596
less assets acquired under finance leases	na	na	na	na	na
less other non-financial assets	-109	19	162	89	290
less increase in inventories	184	1	205	145	405
plus proceeds from sales of property, plant and equipment and intangibles	2223	4321	785	752	511
plus depreciation and amortisation	2533	2823	3160	3475	3654
Fiscal balance (GFS net lending)	**9704**	**5436**	**1072**	**7610**	**13884**

The reconciliation in Table B2 can be divided into two parts. The first part shows classification differences between the AAS31 operating result before extraordinary items and the GFS net operating balance. As discussed above, these differences relate mainly to the treatment of revaluations of financial and non-financial assets and liabilities under the two standards. Major revaluations include: writedowns of bad and doubtful debts (excluding those that are mutually agreed); changes in the valuation of superannuation liabilities; interest swap arrangements; cost of asset sales; and foreign exchange gains and losses.

The second part of the reconciliation shows the adjustment for net capital investment required to derive the fiscal balance from the GFS net operating balance. Net capital investment is measured as net purchases of property, plant and equipment, *plus* net investment in other non-financial assets *less* depreciation.