

# STATEMENT 2: FISCAL OUTLOOK

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## STATEMENT 2: FISCAL OUTLOOK

The fiscal outlook for 2002-03 has strengthened since the publication of the *Mid-Year Economic and Fiscal Outlook 2001-02* (MYEFO). Higher forecast economic growth has resulted in upward revisions to estimated taxation revenue over the next four years. In addition, recent low unemployment outcomes and an expected strengthening of employment growth have led to a significant reduction in forecast unemployment benefit payments.

### BUDGET AGGREGATES

An underlying cash balance surplus of around \$2.1 billion is estimated for 2002-03, an improvement of \$1.1 billion on the corresponding estimate at the MYEFO. Improved underlying cash surpluses are also projected for 2003-04 and 2004-05.

Conversely, the outcome for 2001-02 is expected to record a small cash deficit, principally due to new high priority defence and border protection expenditure, strong demand for First Home Owners Scheme grants and a decline in taxation collections in early 2002.

In accrual terms, the fiscal balance estimates for each year have improved since the MYEFO. A small fiscal balance surplus is now estimated for 2002-03 instead of a deficit. An improved outcome is expected in 2001-02 and higher fiscal balance surpluses are projected for the forward years.

**Table 1: Commonwealth general government budget aggregates<sup>(a)</sup>**

	Actual	Estimates		Projections		
	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
<b>Revenue (\$b)</b>	<b>161.5</b>	<b>163.2</b>	<b>169.6</b>	<b>179.6</b>	<b>189.4</b>	<b>199.3</b>
Per cent of GDP	24.0	23.0	22.6	22.6	22.5	22.3
<b>Expenses (\$b)</b>	<b>156.8</b>	<b>166.8</b>	<b>170.2</b>	<b>177.6</b>	<b>184.9</b>	<b>192.0</b>
Per cent of GDP	23.3	23.5	22.7	22.3	21.9	21.5
Net operating balance (\$b)	4.7	-3.6	-0.5	2.0	4.5	7.3
Net capital investment (\$b)	-1.2	-0.5	-0.7	-0.6	-0.5	-0.4
<b>Fiscal balance (\$b)</b>	<b>5.9</b>	<b>-3.0</b>	<b>0.2</b>	<b>2.6</b>	<b>5.0</b>	<b>7.7</b>
Per cent of GDP	0.9	-0.4	0.0	0.3	0.6	0.9
<b>Underlying cash balance (\$b)</b>	<b>5.6</b>	<b>-1.2</b>	<b>2.1</b>	<b>3.7</b>	<b>4.6</b>	<b>7.1</b>
Per cent of GDP	0.8	-0.2	0.3	0.5	0.6	0.8
<i>Memorandum item:</i>						
Headline cash balance (\$b)	11.3	-1.8	4.6	14.5	15.4	18.1

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

Cumulative underlying cash surpluses of around \$24 billion have been recorded over the past four years. Over the five years from 2001-02, further cumulative underlying cash surpluses of around \$16 billion are projected.

## VARIATIONS TO THE FISCAL BALANCE ESTIMATES

Since the MYEFO, the fiscal balance estimates have been revised upwards in each year over the estimates period. This largely reflects parameter variations, with an improved economic outlook expected to result in higher taxation revenue and lower unemployment benefit expenses. Partly offsetting these variations, new policy decisions have reduced the estimated 2002-03 fiscal balance by around \$0.7 billion.

Table 2 provides a reconciliation of the fiscal balance estimates between the 2001-02 Budget, the 2001-02 MYEFO and the 2002-03 Budget.

**Table 2: Reconciliation of 2001-02 Budget, 2001-02 MYEFO and 2002-03 Budget fiscal balance estimates<sup>(a)</sup>**

	2001-02	2002-03	2003-04	2004-05
	\$m	\$m	\$m	\$m
<b>2001-02 Budget fiscal balance</b>	<b>-834</b>	<b>-1,546</b>	<b>2,697</b>	<b>6,935</b>
Per cent of GDP	-0.1	-0.2	0.3	0.8
<b>Changes between 2001-02 Budget and MYEFO</b>				
Effect of policy decisions(b)(c)				
Revenue	-56	-67	-319	-275
Expenses	1,112	52	46	23
Net capital investment	506	-748	-160	-171
Net effect of policy decisions	-1,674	630	-205	-127
Effect of parameter and other variations				
Revenue	1,923	1,421	468	-113
Expenses	2,605	1,734	2,320	2,994
Net capital investment	-118	61	28	30
Net effect of parameter and other variations	-565	-374	-1,881	-3,137
<b>2001-02 MYEFO fiscal balance</b>	<b>-3,073</b>	<b>-1,290</b>	<b>612</b>	<b>3,670</b>
Per cent of GDP	-0.4	-0.2	0.1	0.4
<b>Changes between MYEFO and 2002-03 Budget</b>				
Effect of policy decisions(b)				
Revenue	0	511	819	729
Expenses	470	1,042	1,551	1,499
Net capital investment	184	186	81	103
Net effect of policy decisions	-653	-717	-813	-873
Effect of parameter and other variations				
Revenue	2,455	2,878	3,037	3,392
Expenses	1,694	550	543	1,415
Net capital investment	79	140	-317	-263
Net effect of parameter and other variations	682	2,187	2,812	2,240
<b>2002-03 Budget fiscal balance</b>	<b>-3,045</b>	<b>180</b>	<b>2,611</b>	<b>5,037</b>
Per cent of GDP	-0.4	0.0	0.3	0.6

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

(c) Includes policy decisions taken up to the issuing of the writs for the federal election on 8 October.

## Variations in revenue estimates

Forecast revenue for 2002-03 has been revised up substantially since MYEFO in both cash and accrual terms. This is primarily because of upward revisions to forecast economic and employment growth. The cash revenue forecasts have also been revised up slightly for 2001-02, although this reflects accounting classification changes rather than underlying collections. Taxation collections were lower in cash terms than expected in the first part of 2002, resulting in lower forecast underlying tax receipts in the current year relative to MYEFO.

The upward revision to estimated taxation in 2002-03 is broadly based, incorporating: faster employment growth; stronger anticipated growth in the earnings of small businesses and companies; and stronger consumption growth. In addition, policy decisions taken since MYEFO have increased forecast revenue by \$511 million in 2002-03 and \$819 million in 2003-04. The major revenue policy decisions include:

- improving service levels and maintaining the integrity of the tax system through additional funding for the Australian Taxation Office (ATO). This will help secure existing revenue projections and will also result in additional taxation revenue of \$330 million in 2002-03 and \$345 million 2003-04;
- reductions in the rates of excise on low alcohol beer, as part of a national agreement to remove inefficient State government subsidies for producers of low alcohol beer. This will reduce estimated revenue by \$68 million in 2002-03. However, the overall impact on the Commonwealth's budget next year is small as the loss of revenue is largely offset by lower Budget Balancing Assistance payments to the States; and
- a revised timetable for the next phase of business tax reform involving the deferral of several measures (including the provision of franking credits for foreign dividend withholding tax and foreign income accounts pending the outcome of the review of international tax arrangements, and a revised timetable for the remaining reforms to the taxation of financial arrangements). The deferral of these measures has no significant net impact until 2003-04, increasing forecast taxation revenue by \$300 million in that year.

Parameter and other revisions have increased forecast revenue in 2002-03 by around \$2.9 billion, or 1.7 per cent. Most of this increase reflects upward revisions to forecast economic growth and inflation since MYEFO. In nominal terms, the most relevant measure for revenue estimation purposes, the forecast level of GDP in 2002-03 has increased by 1.1 per cent since MYEFO. Much of the remaining increase in forecast revenue reflects a budget neutral reclassification of some rebates administered by the ATO from offsets to revenue, to expenses.

The reclassification of the Family Tax Benefit and Private Health Insurance Rebate has increased estimated revenue and expenses by around \$600 million. These payments are usually claimed by people directly from Centrelink (in the case of Family Tax Benefit rebates) or as direct reductions in health insurance premiums. Accordingly, the

ABS has advised that the same payments claimed via the ATO should also be classified as expenses for GFS accounting purposes.

### **Variations in expenses estimates**

Since MYEFO, estimated expenses have been revised upwards by around \$1.6 billion in 2002-03, with larger increases in expenses projected for the forward years. These increases in estimated expenses primarily reflect new policy measures, partly offset by lower forecast unemployment resulting in a significant downward revision in unemployment benefit expenses.

Policy decisions taken since the MYEFO have increased estimated expenses by around \$1.0 billion in 2002-03. This includes around \$0.8 billion of new policy expenditure to deliver the Government's election commitments.

Major new expense policy decisions in 2002-03 include:

- measures to upgrade domestic security, including initiatives aimed at increasing airport security and the capacity of government agencies to detect and respond to terrorist incidents, involving expenditure of \$265 million in 2002-03;
- additional expenditure for border protection and the processing of unauthorised boat arrivals, totalling \$238 million in 2002-03;
- net additional Defence funding of \$194 million in 2002-03 to support Australia's participation in the War Against Terrorism in Afghanistan and the Persian Gulf (in addition to \$330 million provided for these operations in 2001-02);
- the outcome of the independent pricing review of the Australian Taxation Office of \$359 million in 2002-03 to provide for the effective administration of the tax system. Enhanced compliance capabilities are expected to produce a broadly offsetting increase in taxation revenue over the forward estimates period;
- additional funding of \$105 million in 2002-03 to help address unmet need for accommodation support, respite care, day services and other disability services provided by State governments under the third Commonwealth-State Territory Disability Agreement. This funding is contingent on the States agreeing to the Commonwealth's conditions under the new agreement;
- measures to enhance the sustainability of the Pharmaceutical Benefits Scheme (PBS) primarily by increasing patient co-payments, resulting in decreased expenses for the PBS of around \$384 million in 2002-03; and
- the cessation of indexation on petroleum revenue replacement payments forgone and the implementation of a National Excise Scheme for Low Alcohol Beer, decreasing Budget Balancing Assistance grants to the States and Territories by \$202 million in 2002-03.

In 2002-03, parameter and other revisions have resulted in an increase in estimated expenses of around \$0.6 billion since the MYEFO. Abstracting from the budget neutral accounting changes discussed earlier, parameter and other variations since the MYEFO have had only a minor impact on estimated expenses, with increases in estimated expenses broadly offset by decreases.

Parameter and other variations increasing estimated expenses in 2002-03 include:

- an upward revision to expenses indexed to the CPI (\$542 million), including pensions and other personal benefit payments, and nominal superannuation interest expenses, reflecting higher than forecast inflation in 2001-02;
- higher estimated Family Tax Benefit expenses (\$332 million), due to more customers than previously estimated receiving payment through Centrelink. This increase follows a downward revision at the MYEFO to estimated benefits delivered through the tax system. Around 97 per cent of all Family Tax Benefit payments are currently claimed through Centrelink;
- an increase in estimated expenses for the Diesel Fuel Rebate Scheme (\$170 million) and Diesel and Alternate Fuels Grants Scheme (\$85 million) to reflect recent payments experience. The upward revision to Diesel Fuel Rebate Scheme expenses is largely due to increased demand for diesel fuel and higher collections of petroleum excise duty from eligible businesses;
- higher estimated Child Care Benefit expenditure (\$185 million), reflecting higher than expected benefit payments in recent months, indicating a greater level of participation in formal child care;
- an increase in estimated Disability Support Pension expenses (\$150 million), to reflect recent data indicating an increase in the number of Disability Support Pension recipients and average entitlement amounts; and
- a bring-forward in estimated expenses relating to the Automotive Competitiveness and Investment Scheme (\$105 million), to reflect the expectation that claims will be more evenly distributed across the life of the scheme. This increase is almost entirely matched by an upward revision to estimated customs duty revenue, with minimal impact on the fiscal balance.

These variations are offset in 2002-03 by:

- a reduction in forecast unemployment benefit expenses (\$497 million), reflecting recent strong employment outcomes and an improved employment outlook;
- the reprofiling of roads expenditure, including for the National Highways, Roads of National Importance and Roads to Recovery programmes, reducing estimated expenses in 2002-03 (\$200 million);

- a decrease in residential aged care subsidy estimates (\$174 million), reflecting a fall in estimated demand for residential aged care services and a downward revision to estimated dependency levels; and
- the regular draw-down of the conservative bias allowance, reducing estimated expenses by around \$800 million each year from 2002-03.<sup>1</sup>

In 2001-02, estimated expenses have increased by around \$2.2 billion since the MYEFO. This increase is largely due to: new policy spending, including for Defence and immigration processing; an increase in estimated Family Tax Benefit and Child Care Benefit expenses; an increase in Budget Balancing Assistance grants to the States, largely due to an increase in First Home Owners Scheme payments by the States; the budget neutral reclassification of Family Tax Benefit and Private Health Insurance rebate payments; and the draw-down of the provision for underspends.<sup>2</sup>

More detailed information on expenses can be found in Budget Statement 6. A full description of all policy decisions taken since the MYEFO can be found in *Budget Paper No. 2 — Budget Measures 2002-03*.

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

In 2002-03, forecast net capital investment has increased by \$0.3 billion since the MYEFO. The main new policy decision affecting net capital investment in 2002-03 is the establishment of a permanent immigration reception and processing centre on Christmas Island (\$116 million). In addition, a downward revision in Department of Defence property sales (\$116 million) and a revision to the Defence Housing Authority's building and sales programme (\$97 million) have also contributed to the overall increase in estimated net capital investment in 2002-03.

In 2001-02, estimated net capital investment has also risen by \$0.3 billion, largely reflecting new policy measures to address unauthorised boat arrivals, including the construction of the Christmas Island immigration reception and processing centre.

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1 The forward estimates include an allowance for the established tendency for spending on existing government policy (particularly demand driven programmes) to be higher than estimated in the forward years. This allowance, known as the conservative bias allowance, is gradually reduced so that the budget year conservative bias allowance is zero. The conservative bias allowance is a technique to provide for more reliable forward estimates. It is not a policy reserve or 'rainy day' fund.

2 Each year at the MYEFO, an allowance for underspends is included in the contingency reserve for the established tendency of departments and agencies to underspend their budgets in the current financial year. This allowance has been reduced in the budget estimates to reflect underspends incorporated into agency estimates since MYEFO. An allowance for underspends remains in the 2001-02 expenses estimates to cover expected underspends identified by agencies.



Further details on net capital investment can be found in Budget Statement 6. A full description of all policy decisions taken since the MYEFO can be found in *Budget Paper No. 2 — Budget Measures 2002-03*.

## NET DEBT AND NET WORTH

The outlook for Commonwealth general government net debt and net worth has improved since the MYEFO, consistent with the increase in the estimated cash and accrual surpluses from 2002-03.

Table 3 provides a summary of Commonwealth general government net worth, net debt and net interest payments.

**Table 3: Commonwealth general government net worth, net debt and net interest payments**

	Estimates		Projections		
	2001-02 \$b	2002-03 \$b	2003-04 \$b	2004-05 \$b	2005-06 \$b
Financial assets	105.2	94.7	82.9	72.3	60.6
Non-financial assets	33.6	33.0	32.8	32.4	32.1
<b>Total assets</b>	<b>138.8</b>	<b>127.8</b>	<b>115.6</b>	<b>104.6</b>	<b>92.7</b>
<b>Total liabilities</b>	<b>181.3</b>	<b>171.4</b>	<b>158.1</b>	<b>143.6</b>	<b>125.5</b>
<b>Net worth</b>	<b>-42.5</b>	<b>-43.6</b>	<b>-42.5</b>	<b>-39.0</b>	<b>-32.8</b>
<b>Net debt(a)(b)</b>	<b>38.8</b>	<b>34.5</b>	<b>19.0</b>	<b>1.8</b>	<b>-18.9</b>
Per cent of GDP	5.5	4.6	2.4	0.2	-2.1
<b>Net interest payments(c)</b>	<b>4.2</b>	<b>3.7</b>	<b>3.3</b>	<b>2.3</b>	<b>2.6</b>
Per cent of GDP	0.6	0.5	0.4	0.3	0.3

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

(b) Includes the impact of the further sale of Commonwealth shareholdings in Telstra.

(c) Commonwealth cash interest payments less cash interest receipts. In 2005-06, there are some one-off factors leading to a marginal increase in estimated net cash interest payments, including the recognition in cash terms of the capital growth on inflation indexed bonds maturing in this year and repurchase premia on nominal bonds repurchased in earlier years and held to their maturity in this year.

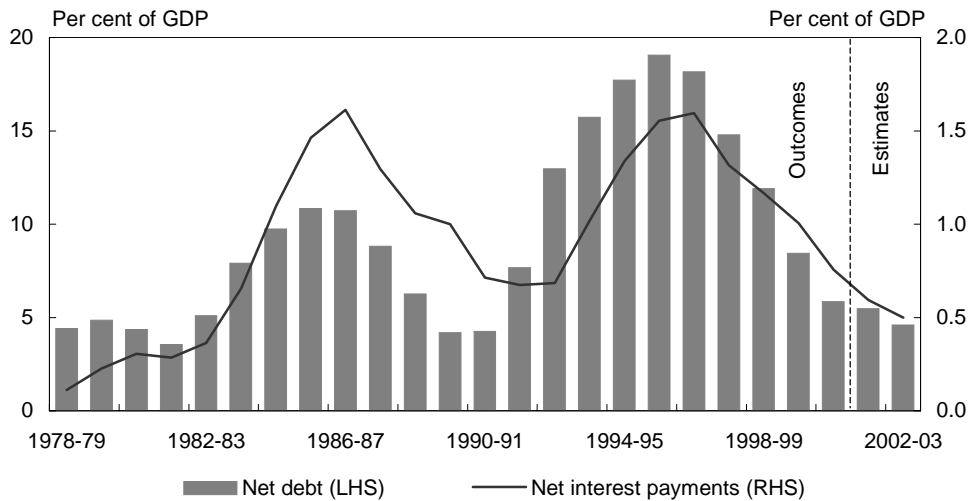
The ratio of Commonwealth general government net debt to gross domestic product (GDP) has fallen consistently since the mid-1990s, from a peak of 19.1 per cent in 1995-96 to an expected 4.6 per cent in 2002-03. In dollar terms, this represents the repayment of around \$61 billion of debt since 1995-96.

The reduction in Commonwealth net debt to more prudent levels has assisted in lowering interest rates and provided the impetus for further growth in the Australian economy. Lower interest rates, combined with a lower stock of net debt have, in turn, reduced the burden of interest payments on the budget. This has freed up funds to be spent on priority areas such as health, families, industry and defence. Since peaking at

\$8.4 billion in 1996-97, net interest payments are expected to decline to \$3.7 billion in 2002-03, representing annual savings in interest payments of around \$4¾ billion.

Net debt is expected to fall further throughout the forward estimates period, both in dollar terms and as a percentage of GDP. This reflects anticipated underlying cash surpluses and further sales of the Commonwealth's shareholding in Telstra. For the purpose of preparing the budget estimates, a further sale of part of the Commonwealth's shareholding in Telstra is currently assumed for late 2003. However, the actual timing will depend on the Government being satisfied with improvements in telecommunications services, particularly in rural and regional Australia.

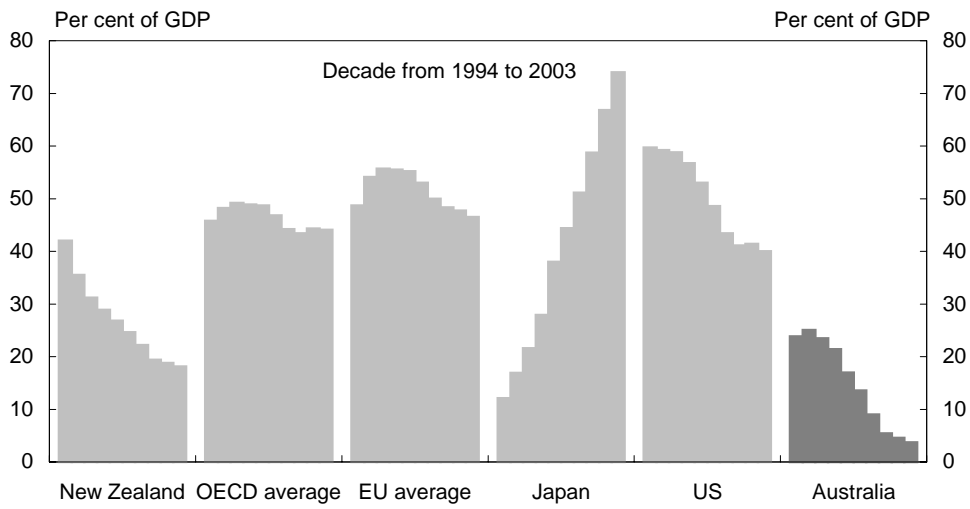
**Chart 1: Commonwealth general government net debt and net interest payments**



Source: Data are from ABS Cat. No. 5513.0, Commonwealth Government Final Budget Outcomes and Treasury estimates.

Australia's net debt position compares favourably with other industrialised economies. The ratio of Australia's total general government net debt to GDP is among the lowest in the OECD, and is considerably lower than in Europe, Japan and the United States (Chart 2).

**Chart 2: General government net debt levels in selected countries<sup>(a)</sup>**



(a) Data are for the total general government sector (that is, the aggregate of all levels of government). Source: OECD Economic Outlook (70) Dec 2001, ABS Cat. No. 5513.0 and 5512.0, and Commonwealth Government Final Budget Outcomes. From 2001-02 onwards, data is derived from jurisdictions' 2001-02 mid-year reports and Treasury estimates.

## CASH FLOWS

An underlying cash surplus of \$2.1 billion is now anticipated in 2002-03, compared with a forecast of \$1.0 billion at the MYEFO. Higher cash surpluses are also projected over the forward estimates period.

Table 4 provides a summary of Commonwealth general government cash flows.

**Table 4: Summary of Commonwealth general government cash flows<sup>(a)</sup>**

	Estimates		Projections		
	2001-02 \$b	2002-03 \$b	2003-04 \$b	2004-05 \$b	2005-06 \$b
Cash receipts					
Operating cash receipts	163.1	171.0	180.3	190.1	200.2
Capital cash receipts(b)	0.9	1.4	0.9	0.6	0.3
Total cash receipts	164.0	172.3	181.2	190.8	200.4
Cash payments					
Operating cash payments	163.0	167.8	175.3	184.0	191.3
Capital cash payments(c)	2.3	2.5	2.2	2.1	2.0
Total cash payments	165.3	170.3	177.5	186.1	193.3
Finance leases & similar arrangements(d)	0.1	0.1	0.0	0.0	0.0
<b>Underlying cash balance</b>	<b>-1.2</b>	<b>2.1</b>	<b>3.7</b>	<b>4.6</b>	<b>7.1</b>
Per cent of GDP	-0.2	0.3	0.5	0.6	0.8
<i>Memorandum items:</i>					
Net cash flows from investments in financial assets for policy purposes	-0.6	2.5	10.8	10.7	11.0
<b>Headline cash balance</b>	<b>-1.8</b>	<b>4.6</b>	<b>14.5</b>	<b>15.4</b>	<b>18.1</b>

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

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

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

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

An underlying cash deficit of \$1.2 billion is now forecast in 2001-02, compared with an estimated surplus of \$0.5 billion at MYEFO. This reduction includes the impact of high priority expenditure to support defence operations in Afghanistan, upgrade domestic security and protect Australia's borders against people attempting to arrive in Australia without authorisation. In total, policy measures since MYEFO are estimated to have reduced the underlying cash balance by \$587 million.

The remaining reduction in the forecast underlying cash balance in 2001-02 reflects the net impact of a range of variations, including:

- a \$442 million reduction in forecast cash underlying taxation receipts (after budget neutral accounting revisions), to reflect lower than expected taxation collections in early 2002;

- a \$322 million increase in Budget Balancing Assistance grants to the States to reflect a commensurate increase in First Home Owners Scheme (FHOS) grants made by the States. A very strong uptake of FHOS grants (evident after the MYEFO) has underpinned high levels of activity in the housing market, boosting economic growth in 2001-02;
- an increase in estimated Family Tax Benefit (\$325 million) and Child Care Benefit (\$180 million) payments to reflect higher than expected benefit payments in recent months;
- an increase in estimated Diesel Fuel Rebate Scheme (\$190 million) and Diesel and Alternate Fuels Grants Scheme (\$70 million) payments, reflecting recent payments data; and
- a \$420 million reduction in estimated unemployment benefit payments, reflecting the significant reductions in unemployment recorded so far in 2002.

The increase in the underlying cash balance estimates from 2002-03 reflects many of the same factors that have resulted in an improvement in the fiscal balance estimates. In particular, a strengthened economic outlook has resulted in an increase in forecast taxation receipts and a significant reduction in estimated unemployment benefit payments. Consistent with the accrual estimates, these positive variations to the underlying cash balance have been partly offset by the effect of new policy measures.

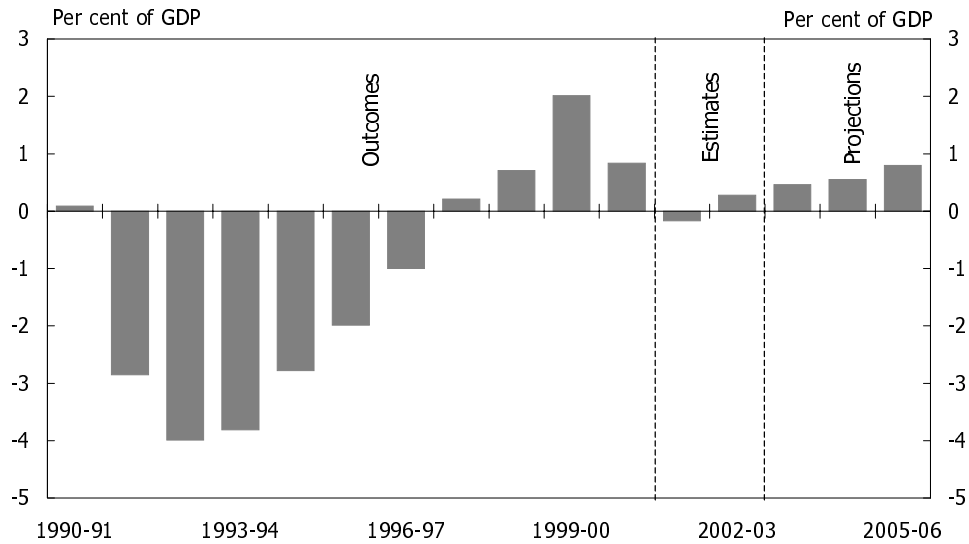
However, since the MYEFO, the improvement in the underlying cash balance estimates from 2002-03 has some compositional differences to the improvement in the fiscal balance estimates. The differences in 2002-03 primarily relate to the following:

- the recognition of the indexation component of Higher Education Contribution Scheme (HECS) repayments as interest receipts rather than repayments of principal has increased cash receipts by around \$200 million per year. This treatment is consistent with ABS standards. It aligns the cash treatment of HECS indexation with the accrual treatment whereby CPI indexation of HECS liabilities is recorded as accrual revenue; and
- a change to the methodology for calculating the Commonwealth's nominal military superannuation interest expenses has resulted in a \$83 million increase in estimated accrual expenses. Again, this change has not affected forecast cash flows.

For 2001-02, estimated cash payments relating to the HIH Policy Holder Hardship Assistance programme have been revised down by around \$107 million since MYEFO, as payments on claims are now expected to be spread over a longer period than previously anticipated. This revision boosts the estimated 2001-02 underlying cash balance, with no impact on the accrual fiscal balance in that year reflecting that the Commonwealth's total estimated liability under this programme was recorded as an accrual expense in 2000-01.

Chart 3 shows recent outcomes and current estimates and projections for the underlying cash balance.

**Chart 3: Underlying cash balance**



The estimated headline cash balance has fallen significantly in 2001-02, before increasing in 2002-03. This reflects the changes in the underlying cash balance mentioned above plus a delay in the sale of the Sydney Airports Corporation, following the events of 11 September 2001. The sale is still expected to occur in late 2001-02 but the proceeds are now scheduled to be received in 2002-03, causing a significant deferral of cash receipts from 2001-02 to 2002-03.

## Appendix A: External reporting standards

The Commonwealth *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 in the budget are the Australian Bureau of Statistics (ABS) accrual Government Finance Statistics (GFS) framework and Australian accounting standards, including *Australian Accounting Standard No. 31 Financial Reporting by Governments* (AAS31).

The GFS framework requires that flows and stocks are valued at current market prices (or where these are not observable, a suitable proxy indicator). While this is the case for flows in the operating statement and the cash flow statement, not all assets and liabilities in the GFS balance sheet are currently valued at current market prices. This is principally because Australian accounting standards allow reporting entities to elect to value their assets at either cost or fair value (current market value). The accounting profession is considering general valuation issues relating to liabilities. In addition, the early years of accrual budgeting have focussed on preparing robust GFS operating and cash flow statements. Refinements to the GFS balance sheet valuations of assets and liabilities will be considered over time, in consultation with the ABS, as the new framework is bedded down.

The draft ABS GFS publication (*Australian System of Government Finance Statistics: Concepts, Sources and Methods* Cat. No. 5514.0) 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 Commonwealth assets in the balance sheet (and would therefore be inconsistent with the market valuation principle).

The Commonwealth revenue and expenses estimates in Statement 5 and Statement 6 and the budget financial statements at Appendix B do not include goods and services tax (GST) collections and equivalent payments to the States. Under the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* (the IGA), all GST receipts are appropriated to the States and Territories and thus are not available for expenditure by the Commonwealth. Because the Commonwealth collects GST as an agent for the States and Territories, GST receipts are not shown as Commonwealth revenue. Estimates of GST receipts are provided in Table 2 of Statement 10.

In order to ensure the reporting of reliable budget estimates and outcomes, taxation revenue is recognised the earlier of when an assessment of a tax liability is made or cash payment is received by the Australian Tax Office or the Australian Customs Service. Accordingly, for most categories of taxation revenue, there is a short lag between when the revenue is recognised and the time at which the underlying income (or economic activity) giving rise to the tax liability occurs. Longer lags, of up to a year, occur for some elements of company and superannuation funds taxation.

## Appendix B: Budget financial statements

The budget financial statements consist of an operating statement, balance sheet and cash flow statement for the Commonwealth general government sector. The budget financial statements are based on GFS Standards with the exception of the divergences discussed in Appendix A.

**Table B1: Commonwealth general government sector operating statement**

	2001-02	2002-03	2003-04	2004-05	2005-06
	\$m	\$m	\$m	\$m	\$m
<b>Revenue</b>					
Taxation revenue	150,756	158,473	168,596	178,038	187,622
Current grants and subsidies	0	0	0	0	0
Sales of goods and services(a)	3,908	4,018	4,125	4,232	4,312
Interest income	1,223	1,190	1,386	2,012	2,778
Dividend income	4,760	3,595	3,006	2,624	2,113
Other(a)	2,515	2,371	2,442	2,483	2,516
<b>Total revenue</b>	<b>163,161</b>	<b>169,646</b>	<b>179,555</b>	<b>189,390</b>	<b>199,341</b>
<b>Expenses</b>					
Gross operating expenses					
Depreciation	1,759	1,788	1,859	1,871	1,997
Superannuation	1,789	1,799	1,856	1,910	1,912
Salaries and wages	10,262	10,908	11,222	11,642	11,892
Payment for supply of goods and services	34,986	37,046	39,207	40,914	42,573
Other operating expenses	1,498	1,426	1,357	1,348	1,339
Total gross operating expenses	50,294	52,967	55,500	57,684	59,714
Nominal superannuation interest expense	5,239	4,945	5,104	5,054	5,299
Other interest expenses	5,266	4,940	4,371	3,951	3,408
Other property expenses	0	0	0	0	0
Current transfers					
Grant expenses	34,454	33,829	34,710	35,465	37,084
Subsidy expenses	4,524	4,706	4,819	4,964	4,713
Personal benefit payments in cash	63,359	65,842	70,321	74,714	78,963
Other current transfers	0	0	0	0	0
Total current transfers	102,337	104,377	109,850	115,143	120,760
Capital transfers	3,620	2,963	2,753	3,057	2,855
<b>Total expenses</b>	<b>166,756</b>	<b>170,192</b>	<b>177,578</b>	<b>184,889</b>	<b>192,035</b>
<b>Net operating balance</b>	<b>-3,595</b>	<b>-545</b>	<b>1,977</b>	<b>4,500</b>	<b>7,306</b>
<b>Net acquisition of non-financial assets</b>					
Gross fixed capital formation	1,532	1,234	1,540	1,499	1,708
less Depreciation	1,759	1,788	1,859	1,871	1,997
plus Change in inventories	-140	-54	-93	-99	-86
plus Other movements in non-financial assets	-182	-118	-221	-66	5
<b>Total net acquisition of non-financial assets</b>	<b>-550</b>	<b>-725</b>	<b>-634</b>	<b>-537</b>	<b>-370</b>
<b>Fiscal balance</b>	<b>-3,045</b>	<b>180</b>	<b>2,611</b>	<b>5,037</b>	<b>7,676</b>

(a) Since MYEFO, GST administration costs paid by the States and small agency revenue from the sale of goods and services have been reclassified from 'Other' revenue to 'Sales of goods and services'.



**Table B2: Commonwealth general government sector balance sheet**

	2001-02	2002-03	2003-04	2004-05	2005-06
	\$m	\$m	\$m	\$m	\$m
<b>Assets</b>					
Financial assets					
Cash and deposits	1,780	1,135	563	494	266
Advances paid	19,945	19,781	20,172	21,385	21,748
Investments, loans and placements	17,075	10,241	10,449	10,550	10,644
Other non-equity assets	14,986	11,982	12,477	13,025	13,520
Equity	51,427	51,569	39,193	26,816	14,440
<b>Total financial assets</b>	<b>105,213</b>	<b>94,708</b>	<b>82,854</b>	<b>72,270</b>	<b>60,618</b>
Non-financial assets					
Land	3,568	3,357	3,213	3,085	3,092
Buildings	12,852	12,557	12,670	12,571	12,549
Plant, equipment and infrastructure	10,955	11,029	10,903	10,814	10,601
Inventories	3,350	3,297	3,204	3,104	3,018
Other non-financial assets	2,868	2,804	2,768	2,795	2,832
<b>Total non-financial assets</b>	<b>33,593</b>	<b>33,044</b>	<b>32,758</b>	<b>32,369</b>	<b>32,092</b>
<b>Total assets</b>	<b>138,806</b>	<b>127,752</b>	<b>115,612</b>	<b>104,640</b>	<b>92,711</b>
<b>Liabilities</b>					
Deposits held	293	293	293	293	293
Advances received	0	0	0	0	0
Government securities	64,045	52,658	38,106	22,339	2,766
Loans	13,037	12,503	11,614	11,453	10,666
Other borrowing	268	177	136	102	77
Superannuation liability	81,967	84,087	85,923	87,538	89,275
Other employee entitlements and provisions	6,542	6,710	6,866	6,965	7,095
Other non-equity liabilities	15,144	14,965	15,124	14,935	15,371
<b>Total liabilities</b>	<b>181,297</b>	<b>171,393</b>	<b>158,062</b>	<b>143,626</b>	<b>125,543</b>
<b>Net worth(a)</b>	<b>-42,491</b>	<b>-43,641</b>	<b>-42,451</b>	<b>-38,987</b>	<b>-32,832</b>
Net debt(b)	38,845	34,474	18,964	1,759	-18,857

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

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

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

	2001-02	2002-03	2003-04	2004-05	2005-06
	\$m	\$m	\$m	\$m	\$m
<b>Cash receipts from operating activities</b>					
Taxes received	148,830	157,733	167,302	176,726	186,398
Receipts from sales of goods and services(b)	4,081	4,303	4,401	4,466	4,548
Grants/subsidies received	0	0	0	0	0
Interest receipts	992	1,045	1,187	1,838	2,597
Dividends	4,760	3,595	3,006	2,624	2,113
GST input credit receipts	2,145	2,175	2,258	2,263	2,281
Other receipts(b)	2,335	2,106	2,170	2,202	2,235
<b>Total receipts</b>	<b>163,143</b>	<b>170,957</b>	<b>180,324</b>	<b>190,119</b>	<b>200,171</b>
<b>Cash payments for operating activities</b>					
Payments for goods and services	-37,380	-39,201	-41,404	-43,059	-44,635
Grants and subsidies paid	-41,149	-40,891	-41,390	-43,030	-43,767
Interest paid	-5,204	-4,794	-4,446	-4,117	-5,185
Personal benefit payments	-63,086	-65,779	-70,246	-75,339	-78,921
Salaries, wages and other entitlements	-14,670	-15,432	-16,254	-16,956	-17,311
GST payments to taxation authority	-312	-299	-290	-261	-257
Other payments for operating activities	-1,187	-1,367	-1,310	-1,283	-1,249
<b>Total payments</b>	<b>-162,987</b>	<b>-167,762</b>	<b>-175,341</b>	<b>-184,045</b>	<b>-191,326</b>
<b>Net cash flows from operating activities</b>	<b>156</b>	<b>3,195</b>	<b>4,984</b>	<b>6,074</b>	<b>8,846</b>
<b>Cash flows from investments in non-financial assets</b>					
Sales of non-financial assets	853	1,353	864	642	278
Purchases of new and secondhand non-financial assets	-2,284	-2,504	-2,185	-2,076	-1,991
<b>Net cash flows from investments in non-financial assets</b>	<b>-1,431</b>	<b>-1,151</b>	<b>-1,322</b>	<b>-1,434</b>	<b>-1,713</b>
<b>Net cash flows from investments in financial assets for policy purposes</b>	<b>-626</b>	<b>2,520</b>	<b>10,829</b>	<b>10,733</b>	<b>10,956</b>
<b>Cash flows from investments in financial assets for liquidity purposes</b>					
Increase in investments	6,311	6,556	-386	-279	-274
<b>Net cash flows from investments in financial assets for liquidity purposes</b>	<b>6,311</b>	<b>6,556</b>	<b>-386</b>	<b>-279</b>	<b>-274</b>
<b>Cash flows from financing activities</b>					
Advances received (net)	0	0	0	0	0
Borrowing (net)	-3,440	-11,407	-14,600	-15,769	-19,573
Deposits received (net)	0	0	0	0	0
Other financing (net)	-303	-359	-77	607	1,531
<b>Net cash flows from financing activities</b>	<b>-3,743</b>	<b>-11,766</b>	<b>-14,678</b>	<b>-15,162</b>	<b>-18,042</b>
<b>Net increase/decrease in cash held</b>	<b>666</b>	<b>-645</b>	<b>-572</b>	<b>-69</b>	<b>-228</b>
<b>Net cash from operating activities and investments in non-financial assets</b>	<b>-1,276</b>	<b>2,044</b>	<b>3,662</b>	<b>4,640</b>	<b>7,133</b>
Finance leases & similar arrangements(c)	83	50	3	0	-1
<b>Equals underlying cash balance</b>	<b>-1,193</b>	<b>2,094</b>	<b>3,665</b>	<b>4,641</b>	<b>7,132</b>
<i>plus</i> net cash flows from investments in financial assets for policy purposes	-626	2,520	10,829	10,733	10,956
<b>Equals headline cash balance</b>	<b>-1,819</b>	<b>4,615</b>	<b>14,494</b>	<b>15,373</b>	<b>18,088</b>

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

(b) Since MYEFO, GST administration costs paid by the States and small agency receipts from sales of goods and services have been reclassified from 'Other receipts' to 'Receipts from sales of goods and services'.

(c) The acquisition of assets under finance leases reduces the underlying cash balance. The disposal of assets previously held under finance leases improves the underlying cash balance.