BUDGET

BUDGET STRATEGY AND OUTLOOK

BUDGET PAPER NO. 1

2013-14

CIRCULATED BY

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FOR THE INFORMATION OF HONOURABLE MEMBERS
ON THE OCCASION OF THE BUDGET 2013-14

14 MAY 2013

ISBN 978–0–642–74894–2

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A copy of this document is available on the central Budget website at: www.budget.gov.au.

Printed by CanPrint Communications Pty Ltd

Notes

(a) The following definitions are used in this Budget Paper:

- 'real' means adjusted for the effect of inflation;
- real growth in expenses and payments is calculated using the Consumer Price Index (CPI) as the deflator;
- the Budget year refers to 2013-14, while the forward years refer to 2014-15, 2015-16 and 2016-17; and
- one billion is equal to one thousand million.

(b) Figures in tables and generally in the text have been rounded. Discrepancies in tables between totals and sums of components are due to rounding:

- estimates under $100,000 are rounded to the nearest thousand;
- estimates $100,000 and over are generally rounded to the nearest tenth of a million;
- estimates midway between rounding points are rounded up; and
- the percentage changes in statistical tables are calculated using unrounded data.

(c) For the budget balance, a negative sign indicates a deficit while no sign indicates a surplus.

(d) The following notations are used:

-	nil
na	not applicable (unless otherwise specified)
$m	millions of dollars
$b	billions of dollars
nfp	not for publication
(e)	estimates (unless otherwise specified)
(p)	projections (unless otherwise specified)
NEC/nec	not elsewhere classified

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

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

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

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

Budget Paper No. 1: *Budget Strategy and Outlook 2013-14* is one of a series of Budget Papers that provides information to supplement the Budget Speech. A full list of the series is printed on the inside cover of this paper.

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Statement 1: Budget Overview

The 2013-14 Budget improves the sustainability of Australia's public finances, supports jobs and growth, and makes room for critical investments in our nation's future.

The Government has maintained fiscal restraint while delivering on historic economic and social reforms and nation building infrastructure. The National Plan for School Improvement provides a once-in-a-generation reform to Australia's school funding arrangements. The establishment of *DisabilityCare Australia*, one of the biggest social reforms in our history, will help ensure that Australians with significant and permanent disability get the support they need. These investments have been fully offset to 2023-24 and beyond.

The Australian economy is expected to undergo two large and important transitions over the forecast period. Following the largest investment boom in Australia's history, the resources boom will shift from the investment phase toward exceptional growth in production and exports. More broadly, the economy will move to non-resource drivers of growth.

The economy starts these transitions from a position of impressive resilience, with an outlook of solid economic growth, low unemployment and contained inflation. However, the unusual combination of a sustained high Australian dollar and falling commodity prices is putting acute pressure on prices and corporate profitability across the economy.

Weaker corporate profitability has had a significant impact on the level of company tax receipts expected in 2012-13 and over the forward estimates. Lower than expected capital gains tax and resource rent taxes have compounded the fall in company tax receipts. Since the 2012-13 Budget, tax receipts have been revised down by around $17 billion in 2012-13. This brings the total write-downs in tax receipts over the five years since the 2008-09 Budget to around $170 billion. Since the *2012-13 Mid-Year Economic and Fiscal Outlook*, tax receipts have been revised down by around $60 billion over the four years to 2015-16.

Significant revenue write-downs will see a budget deficit of $18.0 billion in 2013-14, with the Government charting a sensible pathway to surplus over the forward estimates. The Government's fiscal strategy is currently expected to return the budget to balance in 2015-16 and surplus in 2016-17, before most of the developed world.

A more gradual return to surplus is appropriate given significant downgrades to revenue and the transitions underway in the economy. Attempting to return to surplus too quickly by making drastic cuts in the near term would come at a significant cost to jobs and growth.

Instead, the Government has chosen a sensible pace of consolidation, consistent with maintaining solid growth and low unemployment. Along with historic economic and social reforms, this Budget will make Australia stronger, smarter and fairer.

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STATEMENT 1: BUDGET OVERVIEW

INTRODUCTION

The Government is charting a sensible pathway to surplus over the forward estimates, while still making the vital investments needed to build a stronger economy, a smarter nation, and a fairer society.

Global financial market sentiment has improved since late 2012, though global economic conditions remain challenging, particularly in the major advanced economies. Against this backdrop, the global economy is undergoing dramatic structural change as economic activity shifts increasingly towards Asia.

The Australian economy is expected to continue to grow faster than most of the developed world, building on Australia's record of resilience and outperformance over the past five years. Australia's economic outlook remains favourable, with solid economic growth, low unemployment and contained inflation over the coming years.

The Australian economy is expected to undergo two large and important transitions over the forecast period. Following the largest investment boom in Australia's history, the resources sector will transition away from the investment phase toward exceptional growth in production and exports. More broadly, the Australian economy will transition to non-resource drivers of growth.

While Australia's economic fundamentals remain strong, conditions are expected to remain uneven across the economy. The unusual and enduring combination of a sustained high dollar and falling commodity prices is putting acute competitive pressures on both the resource and non-resource sectors. Many businesses are successfully adapting to these challenges, including by increasing productivity and taking advantage of the opportunities presented by the shift in global growth towards Asia. Still, many businesses have also had to squeeze margins to remain competitive in both export markets and domestically.

These challenging conditions have had a significant and widespread impact on corporate profitability, with the National Accounts measure of company profits falling for a record five consecutive quarters. Consistent with this hit to profitability, nominal GDP growth has been unusually weak. Nominal GDP growth fell short of real GDP growth for the third consecutive quarter in December 2012, the first time this has happened in at least the past-half century. The unusual divergence between real and nominal GDP growth is consistent with solid growth in the volume of production but weakness in prices across the economy.

This has had a significant impact on the level of company tax receipts expected in 2012-13 and over the forward estimates. Lower than expected capital gains tax and resource rent taxes have compounded the fall in company tax receipts. Income tax withholding and consumption taxes have been revised down to a lesser extent, reflecting the forecast for modest wages growth and solid consumption growth. Since the *2012-13 Mid-Year Economic and Fiscal Outlook* (MYEFO), tax receipts have been revised down by around $60 billion over the four years to 2015-16. Had tax receipts stayed at the same tax-to-GDP ratio of 2007-08, the Budget would have been in surplus from 2012-13 onwards.

This hit to government revenues will see a delay in the return to surplus, and has required further structural savings to improve the sustainability of the budget. The Government remains committed to maintaining strong public finances, consistent with its fiscal strategy. The Budget sets out measures to return to surplus over the forward estimates, balancing the need for further consolidation against the detrimental impact that a sharp fiscal contraction in the near term would have on jobs and growth in the economy. A strong economy is a critical foundation for strong public finances. Offsetting the large revenue write-down in a short time period would have put jobs and growth at risk, especially given the transitions underway in the economy.

The fiscal plan detailed in this Budget will ensure Australia's public finances remain amongst the strongest in the world, with net debt as a share of GDP expected to peak at less than one-eighth of the level in the major advanced economies. The medium-term fiscal strategy will see even this low level of net debt eliminated by 2021-22. Real growth in spending has remained low, at an average rate of 1.3 per cent from 2012-13 to 2016-17, the lowest five-year average growth rate for 25 years.

The Government has been able to maintain fiscal restraint while still delivering historic economic and social reforms. These reforms will secure our future, drive greater productivity and workforce participation and give current and future generations the best opportunity to succeed in the Asian Century.

To return the budget to surplus and fund these investments the Government has made $43.0 billion of savings in this Budget. Over the six budgets since 2008-09 the Government has identified over $180 billion in savings. Many of these savings will endure, improving the budget bottom line in the medium and long term as well. These savings mean that *DisabilityCare Australia* and the National Plan for School Improvement are fully offset to 2023-24 and beyond.

The underlying cash deficit is expected to be $18.0 billion (1.1 per cent of GDP) in 2013-14 (Table 1). The deficit falls over the forward estimates, and the underlying cash balance is expected to reach balance in 2015-16, and surplus in 2016-17.

Table 1: Budget aggregates

	Actual	Estimates			Projections	
	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Underlying cash balance ($b)(a)	**-43.4**	**-19.4**	**-18.0**	**-10.9**	**0.8**	**6.6**
Per cent of GDP	-2.9	-1.3	-1.1	-0.6	0.0	0.4
Fiscal balance ($b)	**-44.5**	**-20.3**	**-13.5**	**-6.3**	**6.0**	**10.8**
Per cent of GDP	-3.0	-1.3	-0.8	-0.4	0.3	0.6

(a) Excludes net Future Fund earnings.

Building a stronger, smarter and fairer Australia

This Budget will help build a stronger, smarter and fairer Australia. The Budget will make Australia stronger through supporting jobs and growth, driving productivity improvements through investments in infrastructure and skills, and by improving fiscal sustainability. It will make Australia smarter by investing in education and innovation. And it will make Australia fairer by ensuring every Australian can achieve their potential and that no one is left behind.

It announces the next wave of the Government's flagship Nation Building Program, which will invest in productivity enhancing roads, rail and ports. It invests in high-quality infrastructure projects that will boost Australia's productive capacity. Projects such as Brisbane Cross City Rail and Sydney Motorways will relieve congestion and improve liveability in our biggest cities.

It recognises the critical role of education. As the next phase of the Government's plan to ensure all Australians get a world class education, it is making a substantial investment in school funding through the National Plan for School Improvement. It makes a record investment in early childhood education, while more students are studying at university than ever before. This Budget funds more sub-bachelor and post-graduate university places, and increases funding for research fellowships.

It funds the establishment of *DisabilityCare Australia*, the National Disability Insurance Scheme, one of the biggest social policy reforms in our nation's history, to ensure that Australians with significant and permanent disability get the support they need when they need it.

It reaffirms the Government's commitment to Australia's national security and interests, and provides Defence with the resources it needs to deliver on the priorities in the 2013 Defence White Paper. It helps make our communities safer by funding local engagement activities for youth, community infrastructure and law enforcement efforts.

It provides for important new funding for better health care for all Australians, including measures to provide access to new medicines and medical procedures, improve cancer treatment and support services, and to fund research that will help to prevent, diagnose and treat cancer.

It funds important investments in rural and regional Australia, with the National Drought Program Reform providing better support for farmers and their families.

ECONOMIC OUTLOOK

The Australian economy continues to outperform most of the developed world and prospects remain favourable, with an outlook of solid growth, low unemployment and contained inflation.

The economy is expected to undergo two large and important transitions over the forecast period. Following the largest investment boom in Australia's history, the resources sector will transition away from the investment phase towards exceptional growth in production and exports. More broadly, the Australian economy will transition to non-resource drivers of growth. As this transition unfolds, economic growth is forecast to be close to trend at 2¾ per cent in 2013-14 and 3 per cent in 2014-15.

Table 2: Major economic parameters(a)

	Forecasts			Projections	
	2012-13	2013-14	2014-15	2015-16	2016-17
Real GDP	3	2 3/4	3	3	3
Employment	1 1/4	1 1/4	1 1/2	1 1/2	1 1/2
Unemployment rate	5 1/2	5 3/4	5 3/4	5	5
Consumer Price Index	2 1/2	2 1/4	2 1/4	2 1/2	2 1/2
Nominal GDP	3 1/4	5	5	5 1/4	5 1/4

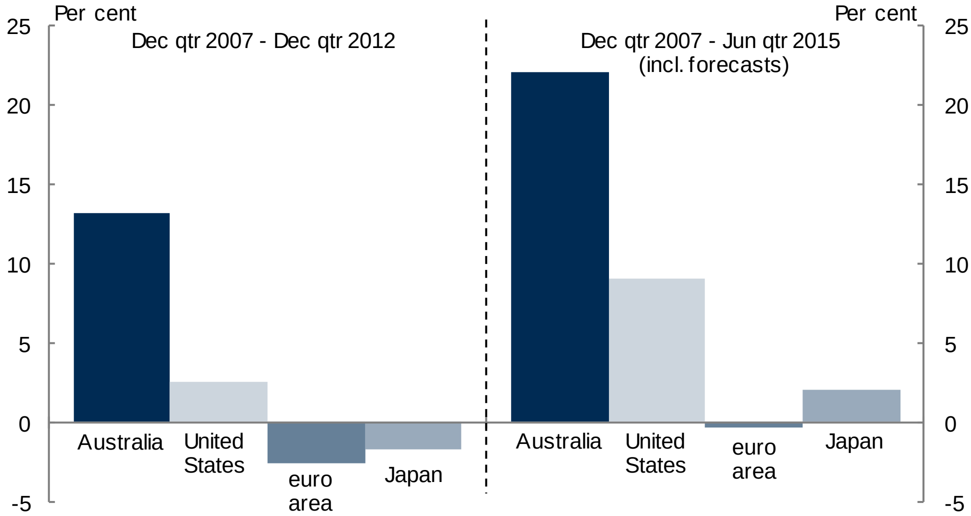
(a) Real and nominal GDP are year-average growth. Employment and CPI are through-the-year growth to the June quarter. The unemployment rate is the rate for the June quarter.
Source: Treasury.

Australia is starting the transition from a position of strength, having one of the strongest economies in the developed world. The Australian economy is more than 13 per cent larger than it was in late 2007, with growth significantly outpacing major advanced economies. Around half of all advanced economies have not recovered lost output over this period. Australia's economy is also expected to continue to grow faster than most of the developed world over the forecast period, building on Australia's impressive record of economic growth and job creation over the past five years (Chart 1).

Global financial market sentiment has improved noticeably since late 2012, though global economic conditions remain challenging, particularly in the major advanced economies. Global growth continues to be driven by emerging market economies, with the weight of global economic activity increasingly shifting towards Asia.

The Australian economy continues to benefit from the opportunities created by this shift in global growth towards Asia. In recent times, Australia's economic growth has been supported by strong demand from Asia, particularly for our commodities, which has driven an unprecedented surge in resources investment. Resources investment is expected to reach a record level of over 8 per cent of GDP in 2013-14, driving new business investment as a share of GDP to the highest level on record.

Chart 1: Real GDP growth



Source: ABS cat no. 5206.0, national statistical agencies, Thomson Reuters and Treasury.

Resources investment is expected to remain elevated through to at least the middle of the decade. The pipeline of resources investment remains substantial, with over $260 billion of investment either committed or under construction. While resources investment will begin to detract from growth after it passes its peak, the resources sector will continue to make an important contribution to growth as the investment phase transitions into the production phase, with record levels of resources investment expected to fuel exceptional growth in resources production and exports. Non-rural commodity export volumes are expected to grow over 30 per cent over the next three years, and a substantial pick up in liquefied natural gas exports in the second half of the decade will support growth for years to come.

Outside of the resources sector, strong growth in emerging Asia will provide opportunities for Australia's services sector and other parts of the economy to increase exports. Reductions in official interest rates are helping to support the transition underway in the economy towards non-resource sources of growth. The official cash rate is now 200 basis points lower than it was in late 2011, and parts of the economy are starting to respond to this. Dwelling investment is already showing signs of a recovery and consumer sentiment has increased since the start of the year and is now above historic-average levels. The near-term outlook for business investment outside the resources sector remains subdued with low capacity utilisation in some sectors, although this too is expected to pick up over time.

While prospects remain favourable, the transition underway in the economy may not be seamless. The resources sector is transitioning to the less labour intensive production phase, and the high Australian dollar, difficult global economic conditions, and household caution around debt accumulation are still weighing on many sectors of the economy. Consistent with this outlook, employment is expected to grow 1¼ per cent through the year to the June quarter 2014, and the unemployment rate is expected to drift slightly higher to 5¾ per cent by the June quarter 2014. In 2014-15, the unemployment rate is expected to stabilise at this level, as employment growth picks up to 1½ per cent through the year to the June quarter 2015 in line with a strengthening economy. The forecast unemployment rate remains low by historical standards and is in stark contrast to the high rates in the major advanced economies.

In contrast to the resilience in real GDP and the labour market, nominal GDP — or the dollar value of goods and services produced in the economy — has been profoundly affected by the sustained high dollar and falling global commodity prices. This unusual combination is having an acute and enduring impact on prices and profitability across the board, despite continued solid growth in the real economy. While real GDP grew 3.1 per cent through the year to December 2012, nominal GDP rose by an unexpectedly weak 2.0 per cent. Through-the-year nominal GDP growth has fallen short of real GDP growth in only three other episodes (the global financial crisis (GFC), the Asian financial crisis, and the 1960s credit squeeze) and has now grown slower than real GDP for a record three consecutive quarters, the first time this has occurred since quarterly records began.

Consistent with the unusual weakness in nominal GDP, the National Accounts measure of company profits has fallen for a record five consecutive quarters. The weakness in profit growth is indicative of the widespread and significant effect of the high Australian dollar and falling commodity prices on profitability in both the resource and non-resource sectors.

While commodity export volumes have been growing strongly, the average price that Australian producers received for those exports fell 24 per cent from their recent peak in September 2011 to December 2012. This fall in commodity prices has led to sharp declines in resource profits. Commodity prices have since recovered some of their lost ground. While there may be short-term volatility, commodity prices are expected to continue to ease in trend terms, in line with growing world supply, placing downward pressure on profits and nominal GDP growth over the forecast period.

Although commodity prices and the terms of trade have fallen significantly from their peaks, the dollar has remained stubbornly high — a highly unusual combination. The trade weighted index of the Australian dollar has risen to around 30-year highs, driven by a 20 per cent appreciation against the Japanese Yen over the past six months. The strength of the Australian dollar reflects the fundamental strength of the Australian economy. With low unemployment, stable inflation and low levels of public debt, Australia is one of only eight countries with a AAA credit rating with a stable outlook from all three rating agencies. These strong fundamentals and the relative attractiveness of yields on offer have increased the demand for Australian dollar denominated assets.

The high dollar in the face of declining terms of trade has contributed to broader weakness in prices and profit. Notwithstanding business investment reaching record highs as a share of GDP, growth in producer prices remains contained. More broadly, there are persistent competitive pressures from the sustained high dollar in trade-exposed sectors. Consumer caution and changing spending patterns have added further competitive pressure on retailers. In response to these pressures, firms have been absorbing costs rather than passing them on as higher prices, which has reduced profit margins. Non-mining profit rose 0.9 per cent in 2012, well below the annual average increase of 14.1 per cent in the ten years prior to the GFC. Some firms are responding to these pressures by improving productivity and adapting their business models. Still, ongoing competitive pressures from the sustained high dollar are expected to continue to constrain price and profit growth over the forecast period.

Consistent with strong competitive pressures, consumer price inflation is expected to be well contained. Headline inflation is forecast to be 2½ per cent through the year to the June quarter 2013, including a one-off ¾ of a percentage point increase due to the introduction of the carbon price, before declining to 2¼ per cent through the year to the June quarter of both 2014 and 2015.

The main risks to the outlook continue to stem from the external environment. The key international risk is the potential for a re-escalation of the euro area crisis. A failure to raise the debt ceiling in the United States in a timely manner is the other key near-term risk, while the threat of a global oil price shock also lingers. The transmission of volatility abroad to commodity prices presents a considerable risk to the forecast for nominal GDP. Additionally, there is a risk that the transition to non-resource drivers of growth may be less seamless than forecast. That said, the Australian economy faces these challenges from a position of strength, and the structural changes in the global economy provide Australia with significant and lasting opportunities.

FISCAL STRATEGY AND OUTLOOK

Significant write-downs in revenue have caused the Government to recalibrate the pace of fiscal consolidation. This Budget sets out a responsible path to return to surplus on a timetable that supports jobs and growth. In the current environment, making significant cuts to offset revenue write downs in a short period of time would have come at a significant cost to jobs and growth.

Fiscal strategy

The Government's fiscal strategy is designed to ensure fiscal sustainability, while providing the necessary flexibility for the budget position to vary in line with economic conditions.

The medium-term fiscal strategy, which has remained unchanged since the Government's first budget in 2008-09, is to:

- achieve budget surpluses, on average, over the medium term;
- keep taxation as a share of GDP, on average, below the level for 2007-08 (23.7 per cent); and
- improve the Government's net financial worth over the medium term.

To ensure a timely return to surplus and recovery in the fiscal position, since the beginning of the GFC the Government has further committed to:

- allow the level of tax receipts to recover naturally as the economy improves, while maintaining the Government's commitment to keep taxation as a share of GDP below the 2007-08 level on average; and
- build growing surpluses by holding real growth in spending to 2 per cent a year, on average, until the budget surplus is at least 1 per cent of GDP, and while the economy is growing at or above trend.

Striking the right fiscal balance

The Government is charting a sensible pathway to surplus over the forward estimates, consistent with maintaining solid growth and low unemployment. A more gradual return to surplus is appropriate given the significant downgrades to revenue and the transition underway in the economy.

Responding to changing economic and fiscal circumstances is a central element of the Government's fiscal approach. This allows the near-term fiscal settings to reflect economic circumstances and to maintain a medium-term path that ensures ongoing fiscal sustainability. While the changing revenue outlook has inevitably changed the budget outlook, the Government's approach to supporting jobs and growth remains the same. At the height of the GFC the Government stepped in to keep the economy out of recession and protect jobs. The Government has since delivered a sensible fiscal consolidation that is consistent with maintaining solid growth and low unemployment (Box 1).

Returning to surplus too quickly by making drastic spending cuts in the near term could have only been achieved at a significant risk to jobs and growth in the economy, which is inconsistent with the Government's fiscal strategy. For this reason, the Government has chosen not to offset substantial revenue downgrades in the near term. Strong public finances require a strong economy. The Government's fiscal consolidation has therefore been targeted to limit any adverse impact on economic growth and employment, with the expected overall impact of the Government's policy decisions on economic growth and employment in 2012-13 and 2013-14 largely unchanged since MYEFO.

Box 1: Managing the pace of fiscal consolidation

Between the height of the GFC in 2009-10 and the return to balance in 2015-16 the fiscal position is expected to consolidate by 4.2 per cent of GDP. This consolidation combines the impact of the natural recovery in tax receipts following the GFC, the savings decisions that the Government has made, and the expiry of temporary stimulus measures.

The timing of the consolidation has been designed to manage its impact on growth and jobs. The fiscal consolidation in 2012-13 is now expected to be 1.6 per cent of GDP, with the change since MYEFO largely due to the write-down in tax receipts of 0.8 per cent of GDP.

This Budget will deliver an average annual fiscal consolidation of around ½ of a percentage point of GDP per annum from 2013-14 to 2016-17. This rate of consolidation is consistent with returning the budget to surplus while supporting jobs and growth and making room for nation building investments.

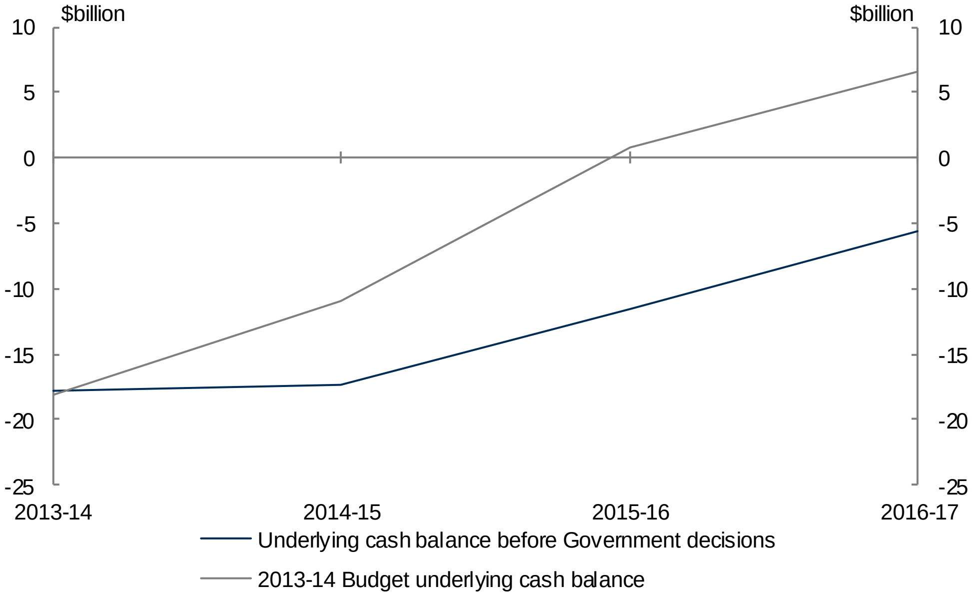
From 2014-15 the contribution of the natural recovery of tax receipts is expected to slow, and policy is expected to have a more significant role in the fiscal consolidation than in 2013-14. All new payments measures within the forward estimates have been more than offset by reductions in payments. From 2014-15 onwards the consolidation is driven by the measures Government is taking to shore up the integrity of the tax system, and the increase to the Medicare levy to provide a strong and stable funding source for *DisabilityCare Australia*.

Despite the more gradual return to surplus, the Government's fiscal consolidation provides ongoing scope for monetary policy to respond to economic developments as needed. Just as the Government's fiscal settings are consistent with solid growth and low unemployment, they are also consistent with contained inflation. The Government's fiscal consolidation has already given the RBA scope to ease monetary policy, with policy interest rates reduced by 200 basis points since late 2011. Lower interest rates are already providing support to many sectors, assisting the transition towards non-mining sources of growth over the forecast period.

The Government is maintaining its record of fiscal discipline and is taking important steps to improve the sustainability of Australia's public finances. Already, real growth in spending between 2009-10 and 2012-13 is less than in any equivalent period of time since the late 1980s. The discipline imposed on real spending growth means that the average payment to GDP ratio over the five years from 2012-13 is lower than the average payment to GDP ratio over the previous thirty years. This Budget contains savings that total $43 billion across the forward estimates. The Government's sensible fiscal consolidation and clear and credible pathway to surplus support Australia's AAA credit rating, which underscores confidence in the Australian economy. The Government is expected to return to surplus before most advanced economies.

The Government's fiscal discipline is also necessary to make room for the significant investments this Budget makes in education, infrastructure, and a fairer go for Australians with a disability. These reforms have the potential to improve the long-term growth prospects of the economy, lifting productivity growth and enhancing participation. The impact of these reforms will improve fiscal sustainability in the long run. Without the net impact of policy decisions in this Budget the underlying cash balance would have remained in deficit through the forward estimates (Chart 2).

Chart 2: Government decisions improve the underlying cash balance



Source: Treasury.

An important foundation of sound public finances is transparency. The Government has taken measures that will add to the transparency of the debate over the budget position through the creation of the Parliamentary Budget Office (Box 2).

Fiscal outlook

Consistent with the fiscal strategy, the fiscal consolidation is being achieved through a combination of responsible savings and allowing the natural increase in tax receipts associated with a growing economy to flow through to the budget.

An underlying cash deficit of $19.4 billion (1.3 per cent of GDP) is expected in 2012-13, with a deficit of $18.0 billion (1.1 per cent of GDP) expected in 2013-14.

Box 2: Fiscal transparency — The Parliamentary Budget Office

Transparency of fiscal policy is a fundamental element of the Australian budgetary and political landscape. Since 1998, the Charter of Budget Honesty has provided a detailed framework for the conduct of Government fiscal policy, including regular reporting on the Government's fiscal strategy and the economic and fiscal outlook. The Charter also includes a mechanism for costing the election commitments of the Government, the Opposition, and (since 2011) minority parties.

The Government has supported fiscal transparency by establishing the Parliamentary Budget Office (PBO), with the first Parliamentary Budget Officer — Mr Phil Bowen PSM — appointed on 30 May 2012. The PBO provides independent and non-partisan analysis of the budget cycle, fiscal policy and the financial implications of proposals. The availability of the PBO's services means all Parliamentarians have access to high quality advice about the fiscal implications of their policies, which enables them to be more transparent to the Australian public about those implications.

The Government has taken further steps to improve fiscal transparency, by introducing legislation to require the PBO to publish a post-election report on the cost of the election commitments of each party with five or more members of Parliament. If passed, this legislation will mean there is a non-partisan and independent analysis of the fiscal implications of each party's election commitments. The Government has also provided additional funding to the PBO to support its functions, particularly during election years. These measures will ensure that political debate on questions of fiscal policy is informed by rigorous independent analysis.

Weaker tax revenue as profits slow

Tax receipts (abstracting from policy measures) have been revised down by around $60 billion over the four years to 2015-16 since MYEFO.

Tax receipts have been significantly affected by weaker than expected nominal GDP growth. Weaker commodity prices and the persistently high Australian dollar have hit company profits across most of the economy, including the resources sector. This has had a significant impact on the level of company tax receipts expected in 2012-13 and over the forward estimates. Lower than expected capital gains tax and resource rent taxes have compounded the fall in company tax receipts.

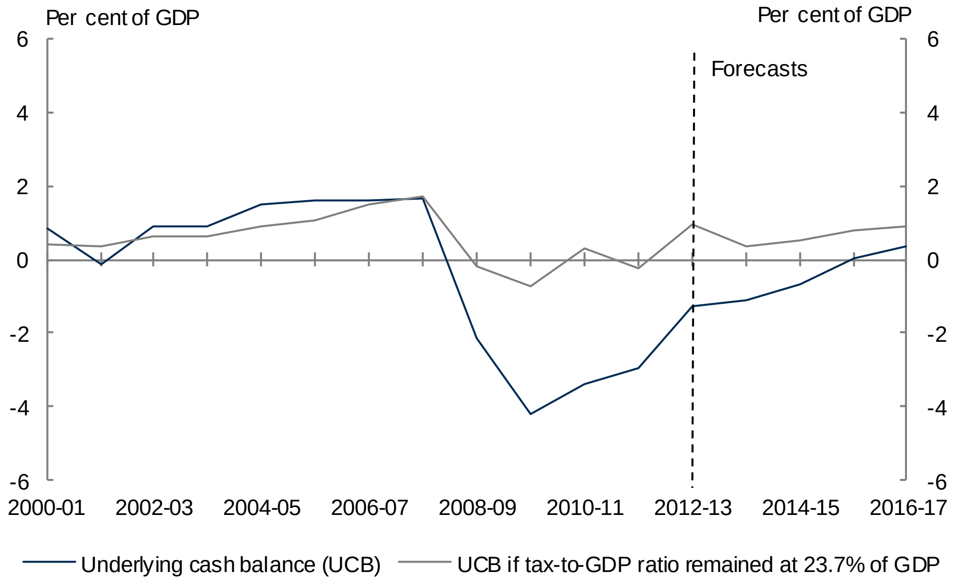
Income tax withholding and consumption taxes have been revised down to a lesser extent, reflecting the forecast for modest wages growth and solid consumption growth. The fall in tax receipts has been partly offset by policy measures including measures designed to ensure the integrity of the tax base.

Corporate profitability has been unexpectedly weak. The persistently high Australian dollar is having an acute and widespread effect on profits and prices. Over the past year and a half, private non-financial corporate gross operating surplus, the National Accounts measure of private corporate profitability, has fallen by almost the same amount as during the early 1990s recession and the GFC, albeit over a longer period of time. This is highly unusual in what has otherwise been a period of solid economic growth.

Company taxes have been revised down by around $5.2 billion in 2012-13 and $7.2 billion in 2013-14. In comparison, the outcome for 2008-09 company tax receipts was $11.3 billion lower than forecast at the 2008-09 Budget, the last budget before the GFC. Resource rent taxes have been revised down by around $3.6 billion in 2012-13 and $3.2 billion in 2013-14.

Across the forward estimates, tax receipts as a share of GDP are expected to remain well below pre-GFC levels. Over the five years to 2012-13, the average tax to GDP ratio is expected to be 20.9 per cent, lower than any period since the five years ending in 1995-96. Had tax receipts stayed at the share of 2007-08, the Budget would have been in surplus from 2012-13 onwards (Chart 3).

Chart 3: Underlying cash balance if tax receipts were 23.7 per cent of GDP



Source: Treasury.

Responsible savings

The responsible savings in this Budget ensure investments in priorities for future growth are fully funded including in education, disability and nation building infrastructure.

This Budget makes $43.0 billion in savings that improve the budget position, continuing the Government's record of offsetting all new spending since mid-2009.

This includes $16.4 billion in savings in MYEFO and more than $130 billion of savings identified in the five budgets since 2008-09. Over the past six Budgets the Government has identified savings of over $180 billion.

These savings decisions improve the position of the budget, and help to pay for critical new investments. In making these decisions the Government has paid careful attention to the impact on growth and jobs, delivering greater fairness in existing expenditure and concessions and taking the responsible decisions to keep our public finances on a sustainable footing.

In the fiscal environment Australia currently faces any new policy requires reprioritisation. In some areas some slowing in the growth in expenditure is necessary to pay for significant new reforms. And in other areas the Government has retargeted spending to those who need it most.

The Government continues to work to protect the tax base, and, in particular in this Budget, will protect the corporate tax base from erosion and loopholes. By improving the integrity and fairness of the corporate tax system in this year's Budget, the Government is ensuring that other firms are not forced to contribute more to make up for the reduced revenues from those able to exploit loopholes. Protecting the corporate tax base in this way contributes to a sustainable fiscal position, which is essential to Australia's future prosperity.

The Government will also increase the Medicare levy by half a percentage point from 1.5 to 2 per cent of taxable income, to provide a strong and enduring funding source for *DisabilityCare Australia* — the most fundamental social policy reform since Medicare. This will provide Australians with significant and permanent disability and their families with the support they need, when they need it. The money raised by the increase in the Medicare levy will be placed into the *DisabilityCare Australia* Fund, which will only be drawn upon to fund the additional costs of delivering *DisabilityCare Australia*. Virtually all taxpayers will still be paying less income tax than they would have under the 2007-08 tax scales, due to the Government's three rounds of tax cuts and the tripling of the tax-free threshold.

The Government introduced a carbon price from 1 July 2012 as part of the Clean Energy Future Plan. From 1 July 2015, the carbon price links with the European Union emissions trading scheme, the largest trading scheme in the world, with the European price expected to set the Australian price. The price of carbon in Europe has fallen due in large part to ongoing economic weakness. Carbon price estimates have been revised down in this Budget, with carbon price revenue now estimated to be lower, particularly from 2015-16 onwards.

The 2015-16 personal income tax cuts were designed to assist households on the expectation of an increase in the carbon price to $29 in 2015-16 from the fixed price of $25.40 in 2014-15. As the carbon price is now projected to be around $12 in

2015-16, these tax cuts will be deferred until the carbon price in the Budget is estimated to rise above $25.40. All existing household assistance will remain in place.

Key elements of the Clean Energy Future plan were designed to adjust automatically with changes in the carbon price, including permit-based assistance through the Jobs and Competitiveness Program and the Energy Security Fund. Further targeted savings will be made to specific programs, including through adjustments to extend the life of programs and better match spending with the collection of revenue from the carbon price. Further information on these changes is provided in Box 2 in Budget Statement 3.

The Government is also extending the requirement to make monthly Pay As You Go (PAYG) income tax instalments announced in MYEFO to all large entities in the PAYG system, including trusts, superannuation funds, sole traders and large investors. This change will better match tax collections with the economic conditions faced by business and ensure neutral treatment across business structures.

The Government is better targeting support for research and development (R&D) by limiting access to the R&D tax incentive so that it only applies to companies with annual aggregate Australian turnover of less than $20 billion from 1 July 2013. This is estimated to increase tax receipts by $1.1 billion over the forward estimates period. This change will ensure that the incentive is targeted to companies that are more responsive to the incentive, delivering value for money for the community.

The Government will phase out the poorly targeted Net Medical Expenses Tax Offset. All existing claimants will be grandfathered for two years, and claims for aged care, disability aids and attendant care will be allowed through until 30 June 2019, as reforms to aged care are implemented and *DisabilityCare Australia* is rolled out across the country. This will provide savings of $963.5 million over four years.

The Government will restructure the Import Processing Charge to recover the costs of all import related cargo and trade functions undertaken by the Australian Customs and Border Protection Service. The new charges will come into effect from 1 January 2014 and apply to consignments valued over $10,000, generating additional revenue of $674 million over four years.

In this Budget the Government will reform the family payments system to improve its sustainability, and better target assistance now Australia has a national Paid Parental Leave (PPL) scheme. From 1 March 2014, the Baby Bonus will be replaced with an increase to Family Tax Benefit Part A (FTB-A). For those families not claiming PPL, FTB-A will be increased by $2,000 following the birth or adoption of a first child and by $1,000 following the birth or adoption of a second or subsequent child.

The Government is also improving the PPL scheme by extending the work test so that parents will be able to count periods of Government PPL as ‘work’, just like employer-funded PPL. Currently, some parents who have children close together are unable to meet the work test in time to claim PPL for the subsequent birth, and this measure will particularly assist these families.

In addition, the indexation pauses on the FTB end-of-year supplements, the Child Care Rebate annual per child cap, the higher income tests for family payments and the income threshold for the dependency tax offsets will be extended for a further three years.

These family payments reforms will save a total of $2.5 billion over the forward estimates.

Further, in light of revenue write downs across the forward estimates, the Government will not proceed with the increase to FTB-A announced in the 2012-13 Budget.

The Government has announced a package of reforms to improve the fairness, sustainability and efficiency of the superannuation system. These reforms will save around $0.9 billion over the forward estimates period and build on previous reforms to make the superannuation system stronger and fairer.

In order to have the best universities we need to have the best schools. The Government's substantial investment in universities will continue, with some adjustments to help make room for the National Plan for School Improvement. The Government is introducing an efficiency dividend of 2 per cent in 2014 and 1.25 per cent in 2015 on most grants programs under the *Higher Education Support Act 2003*. The Government will also replace the Student Start-up Scholarships program with an equivalent income contingent loan program for new students, abolish the 10 per cent HECS-HELP up-front payment discount and 5 per cent voluntary HELP repayment bonus, and introduce a $2,000 cap on the tax deduction for work-related self-education expenses. Higher education funding is expected to be 17 per cent higher in real terms by 2016-17 (the end of the forward estimates) than it was in 2007-08, when the Government came to office.

The Government will also index tobacco excise and excise equivalent customs duty to average weekly ordinary time earnings (AWOTE), replacing the current Consumer Price Index (CPI) indexation. This will ensure tobacco excise keeps pace with income growth.

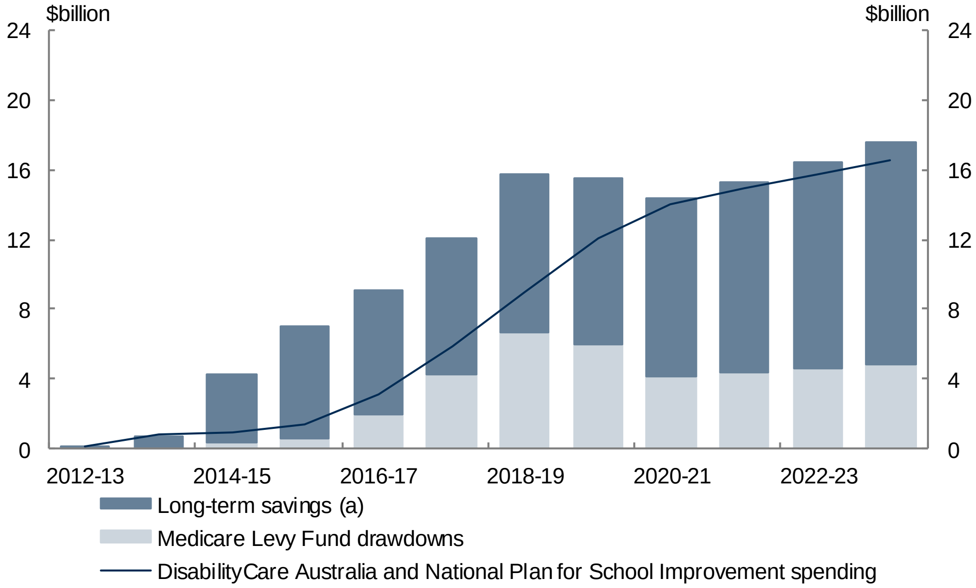
The Government will continue to increase its official development assistance program to 0.5 per cent of gross national income, but will defer the target date by one year from 2016-17 to 2017-18. This decision will result in $1.9 billion in savings over the forward estimates while still growing annual aid spending by 42.4 per cent over this period.

Savings for the longer term

Since its first Budget in 2008-09 the Government has consistently made savings decisions that continue to benefit the budget beyond the forward estimates. These savings have allowed the Government to make room for new priorities such as establishing *DisabilityCare Australia*, and the National Plan for School Improvement. These enduring savings have also helped improve the budget bottom line, helping to achieve the goals of the Government's medium-term fiscal strategy.

Long-term savings made prior to this Budget include gradually increasing the pension age to 67, reforms to the private health insurance rebate and to the family payments system, changes to the concessional contribution arrangements for superannuation, means testing for aged care recipients, and reforms to personal tax offsets and fringe benefits tax concessions to make the tax system fairer. Significant long-term savings in this Budget build on this record, and include the changes to education funding, reforms to business taxation, the increase to the Medicare levy, reforms to family payments, and the phasing out of the poorly targeted net medical expenses tax offset. The long-term savings made in this budget total $77 billion by 2020-21. These savings fully offset the expenditure needed for *DisabilityCare Australia* and the National Plan for School Improvement (Chart 4). Between 2013-14 and 2023-24 the long-term savings provide $121 billion.

Chart 4: Making Room for the National Plan for School Improvement and *DisabilityCare Australia*



(a) Long-term savings from 2013-14 Budget and 2012-13 MYEFO, excluding Medicare Levy and net of Dental Care Reform expenditure.

Without the savings made since the 2008-09 Budget the outlook would be much poorer. The long-term savings the Government has made in this Budget and previously, mean that the budget is cumulatively better off by over $300 billion by 2020-21.

These savings also help to deal with the longer-term budget pressures that were identified in the Intergenerational Report. The Intergenerational Report showed that without changes to future policy the expenditure pressures from ageing and other factors would create a significant fiscal gap by 2050. Changes to health expenditure, such as adjustments to the indexation of the Medicare benefits schedule, have helped to reduce one of the most significant contributors to the projected fiscal gap.

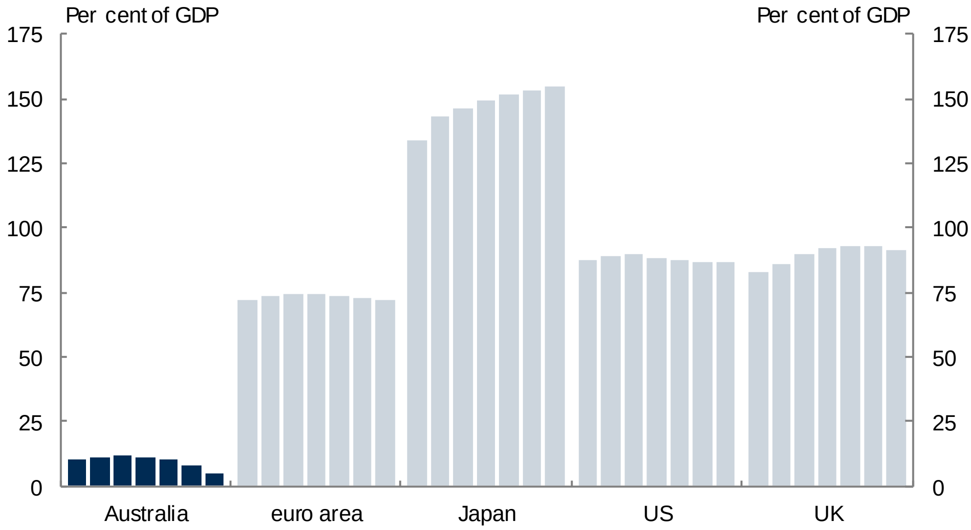
A strong and sustainable budget position

The Government's fiscal strategy will ensure that Australia's financial position remains one of the strongest in the developed world.

Net debt is expected to peak at 11.4 per cent of GDP in 2014-15, and decline over the remainder of the forward estimates. Net debt is projected to reach zero in 2021-22, only one year slower than projected at MYEFO despite the substantial reduction in expected tax revenue.

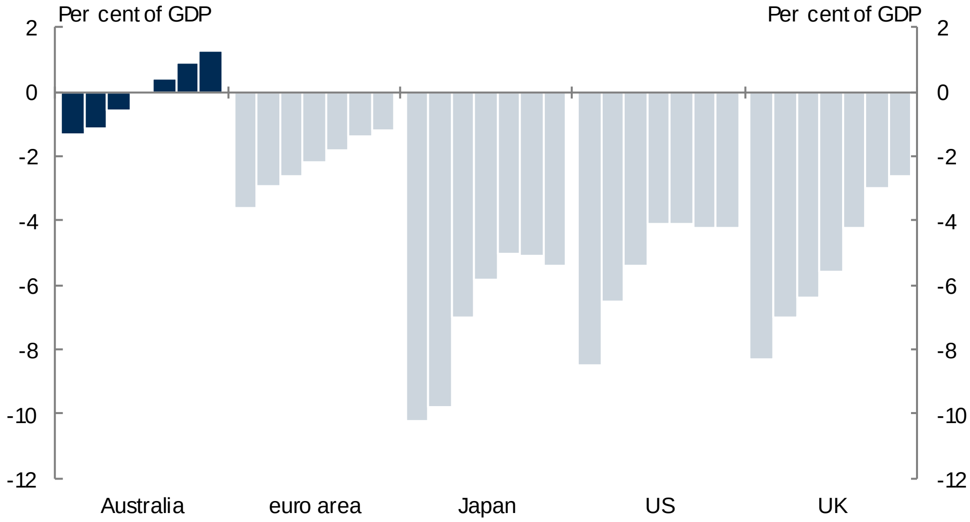
Net debt remains very low by international standards, with the average net debt position of the major advanced economies expected to be around 93 per cent of GDP in 2014 (Chart 5). Despite the delay in the return to surplus, Australia will return to surplus ahead of most other advanced economies (Chart 6).

Chart 5: Comparison of Government net debt for selected economies, 2012-2018



Note: Australian data are for the Australian Government general government sector and refer to financial years beginning 2012-13. Data for all other economies are total government and refer to calendar years beginning 2012.
Source: IMF Fiscal Monitor April 2013 and Treasury.

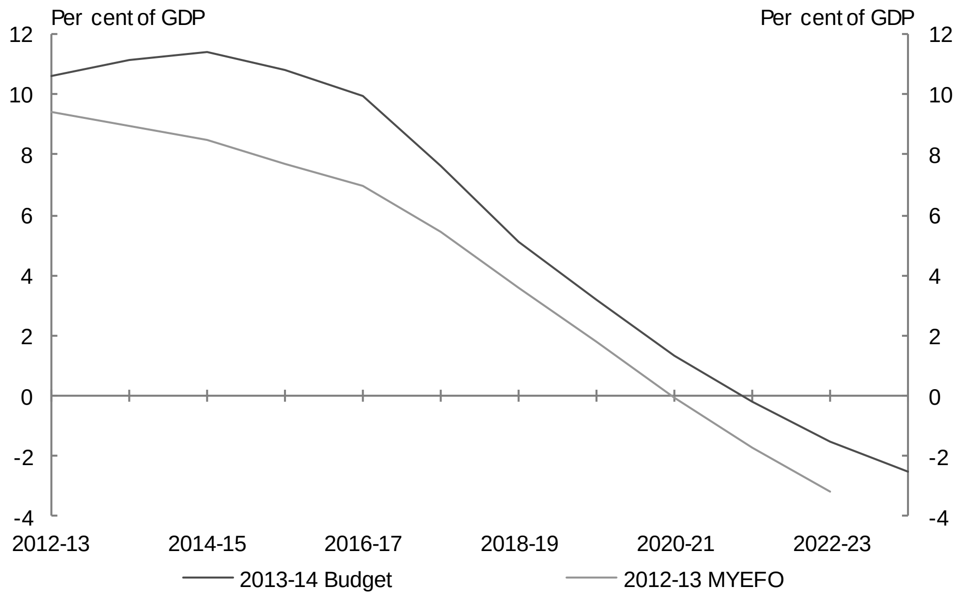
Chart 6: Comparison of Budget balances for selected economies, 2012-2018



Note: Australian data are for the Australian Government general government sector underlying cash balance and refer to financial years beginning 2012-13. Data for all other economies are total government and refer to calendar years beginning 2012.
Source: IMF Fiscal Monitor April 2013 and Treasury.

The medium-term projections show Australia's net debt continuing to fall, reaching zero by 2021-22 (Chart 7).

Chart 7: Net debt projected to 2023-24



Source: Treasury.

BUDGET PRIORITIES

This Budget will help build a stronger, smarter and fairer Australia, giving current and future generations the best opportunity to succeed in the Asian Century.

This Budget invests a further $24 billion in vital infrastructure projects from 2014-15 to 2018-19 all around Australia. This means the Government will have invested around $60 billion on essential infrastructure from 2008-09 to 2018-19.

This Budget supports once-in-a-generation reforms to Australian school funding arrangements, through the National Plan for School Improvement. These reforms are critical to building a more productive and prosperous Australia by investing in our most important resource, our people.

This Budget provides funding to rollout *DisabilityCare Australia* across the country. This will support one of the biggest social policy reforms in our nation's history, ensuring that Australians with significant and permanent disability get the support they need when they need it.

The expenditure for *DisabilityCare Australia* and the National Plan for School Improvement investments have been fully offset to 2023-24 and beyond.

Other key priorities in the 2013-14 Budget are to:

- boost the Government's commitment to protect Australians at home and abroad, by: strengthening Australia's air combat capabilities; providing ongoing support to our soldiers, police and officials deployed on overseas operations; continuing to help overcome poverty through our aid program; and making a significant investment in combatting gang violence and organised crime;

- increase access to high quality, affordable and flexible childcare by undertaking a major investment in early childhood education, including new funding to assist child care providers to attract and retain qualified professional employees;

- build on the $16.4 billion National Health Reform Agreement by continuing to improve access to high quality health care, medicines and support services, and investing to improve cancer treatment and support services;

- support Australian jobs and industry by backing Australian companies to win more work at home and abroad, and helping small and medium businesses to grow and create new jobs;

- strengthen regional cooperation and the Government response to people smuggling;

- ensure Australia maintains a responsive education and training system and supports world-class research by providing additional Commonwealth Supported sub-bachelor and postgraduate university places and additional Future Fellowships to attract and retain the best researchers to our universities;
- support jobseekers in the transition to work including through the first increase in over a decade to the income free area for Newstart and other similar allowances from $62 to $100 a fortnight, and indexing from 1 July 2015;
- fund important investments in rural and regional Australia, and the National Drought Program Reform to better support farmers and their families;
- reform the superannuation system to improve its fairness, sustainability and efficiency;
- protect the corporate tax base from erosion and loopholes;
- assist seniors who want to downsize their home by providing a pension means test exemption of up to $200,000 for ten years;
- invest in the provision of vital homelessness services;
- support a thorough investigation by the Royal Commission into institutional responses to child sex abuse; and
- support the role creativity plays in Australian society through *Creative Australia*, the national cultural policy.

INVESTING IN NATION BUILDING INFRASTRUCTURE

This Budget announces the next wave of the Government's flagship Nation Building Program that is delivering high-quality infrastructure projects to boost Australia's productive capacity. The Government will invest a further $24 billion on roads, rail and ports from 2014-15 to 2018-19, building on the $36 billion already invested over the six years to 2013-14. This means that the Government will have invested around $60 billion on essential infrastructure from 2008-09 to 2018-19. The projects funded through this investment will enhance liveability, and the movement of goods and people in urban and regional areas. This will improve the connection between the farm gate and Australia's domestic markets and export gateways, helping to reduce business costs and enhance Australia's overall wellbeing.

Building Australia's future infrastructure

This Budget commits to further infrastructure investment which will benefit Australians across the country. The Government has identified the nation's future infrastructure priorities, and is providing funding towards key projects in both urban and regional areas. For example, in our regions, the Government has allocated a further $2.3 billion to 2020-21 for critical infrastructure projects under Stream 2 of the Regional Infrastructure Fund (RIF). This builds on the Government's initial $916.0 million commitment under Stream 1 of the RIF.

In Queensland, the Government is investing $4.1 billion in the State's most important piece of road infrastructure, the Bruce Highway, over the 10 years from 2012-13. This brings the Government's total commitment to the Highway to $5.7 billion since 2008. This additional funding will improve road safety and enhance flood resilience on this key corridor, supporting the nation's economic development by enabling valuable freight to keep moving during the wet season.

The Government is also providing $715.0 million to fund the much needed Brisbane Cross River Rail project. The project, identified as a national 'priority' by Infrastructure Australia, will significantly increase the capacity of Brisbane's inner city rail network. The Government is also investing $718.0 million to upgrade and widen Brisbane's Gateway North Motorway, and $317.5 million in a package of works to improve safety and capacity on the Warrego Highway between Toowoomba and Miles.

This Budget also invests in Victoria's infrastructure needs, providing $3.0 billion to the Melbourne Metro rail project to upgrade rail capacity to meet the growing demands on Melbourne's train network in the medium and long term. This key project, also identified as a national 'priority' by Infrastructure Australia, will help to reduce traffic congestion by providing commuters with greatly improved public transport options. The Government is also investing $525.1 million to complete the widening of Melbourne's M80 Ring Road.

In New South Wales, the Government continues to invest in productivity enhancing infrastructure to relieve bottlenecks and urban congestion, thereby reducing business costs. The Government is making a $1.8 billion provision towards the Sydney Motorways (M4 extension and M5 duplication), subject to the New South Wales Government meeting a number of preconditions. These include ensuring that the road connects directly to the city and Port Botany and that new tolls are not imposed on existing un-tolled roads. In addition, the Government is partnering with the New South Wales Government and Transurban to build a tunnel linking the F3 with the M2. The Government is contributing $400.0 million to ensure that this much needed 'missing link' in the Sydney motorway network is built. The project is an example of the Government working with the private sector and State governments to deliver nationally significant infrastructure projects.

In Western Australia, this Budget is providing $500.0 million to assist in the delivery of a public transport project in Perth, either the Perth Light Rail project or the construction of a new rail link to the city's airport. The Government is also investing $900.1 million in Western Australia's regions through the RIF, including $418.3 million in the Perth to Darwin National Highway (Swan Valley Bypass) and $307.8 million to improve the Great Northern Highway between Muchea and Wubin.

The Government is funding infrastructure needs in South Australia, with $448.0 million being provided for the South Road upgrade in Adelaide, building on the previously funded South Road Superway, and in Tasmania, where the Government is providing $500.0 million over 10 years towards a package of works to upgrade the Midland Highway. This will enhance traffic flows between Hobart and Launceston for both freight and commuters, and deliver improved road safety outcomes.

All of these investments demonstrate that the Government is funding nation building infrastructure projects right around the country.

A new way of thinking about infrastructure

The Government recognises that the future growth of infrastructure will require a new approach to funding and financing, to make us stronger for the future. In line with the Infrastructure Finance Working Group Report, the Government continues to foster greater private sector involvement in infrastructure. The F3 to M2 ‘missing link’ in Sydney is a good example of how the Government is working with the private sector to deliver nationally significant infrastructure projects. Consistent with this, the Government is also looking to utilise new funding and financing arrangements to help attract private sector involvement in the Melbourne Metro and Brisbane Cross River Rail ‘mega projects’. This commitment to working with the private sector is in line with the approach demonstrated in the last Budget to develop the Moorebank Intermodal Terminal.

This new approach builds on the solid foundations the Government has already put in place to identify the right infrastructure projects and make effective funding decisions. The establishment of Infrastructure Australia has overhauled the way our nation plans, prioritises, builds and uses its infrastructure, delivering real outcomes, such as our National Ports Strategy.

In order to support continued partnerships between the Government and the private sector, the Government is establishing a new advisory function within Treasury to provide guidance on the most appropriate funding and financing structures to bring complex infrastructure projects to market. This will minimise the risks that could be associated with new financing arrangements, and help to build investment capacity in Australia.

National Broadband Network

The Government will invest up to $30.4 billion in equity in NBN Co to fund the rollout of the $37.4 billion National Broadband Network (NBN).

The NBN will deliver a major advancement in the quality and speed of broadband access for all Australians. At the same time, it will help boost Australia's future productivity performance and enhance Australia's future economic growth and prosperity.

The NBN will enhance the ability of Australian businesses to compete, as it will help to reduce operating costs and improve access to customer markets. It will improve access to health services, such as by enabling patients in remote locations to receive in-home health care and stay in their homes for longer. Furthermore, the NBN will expand educational opportunities as distance will no longer be an obstacle to accessing world-class educational information and services.

NBN Co's latest three year rollout plan will see construction commenced or completed for over 4.8 million premises nationwide by June 2016.

This Budget also delivers an additional $12.9 million to assist local governments, small businesses, and not-for-profit organisations to engage in the digital economy and take advantage of the NBN.

SCHOOLS REFORM

The Budget provides $9.8 billion over six years from 2014-15 for new needs-based school funding arrangements, and a new National Plan for School Improvement. This historic investment in Australia's schools will be central to Australia's future prosperity by lifting our productivity through investing in our most important resource, our people. Making sure we have world-class education is a central part of the Government's strategy for economic success. Improving our schooling outcomes will be vital for helping Australia seize the opportunities on offer in the Asian century.

The Government is introducing once-in-a-generation reforms of Australian school funding arrangements, delivering greater consistency in the distribution of funding, providing more support for disadvantaged students, and helping drive improvement at the student, school and national levels.

The Commonwealth's funding offer will remain open until 30 June 2013, to ensure schools have certainty around their 2014 funding levels well before the school year begins. Negotiations with states are ongoing, and the final outcome of these negotiations will be announced in the coming months.

A more equitable and consistent funding model

The Commonwealth's new Schooling Resource Standard (SRS) directs funding to those schools and students most in need. The SRS provides a base amount for every student, supplemented by additional funding for: schools in regional and remote areas; small schools; students from a low-socioeconomic status background; Indigenous students; and students with low English-language proficiency.

For the first time, government and non-government schools will be funded through a consistent formula. Families choosing non-government schools will continue to contribute to the base per-student amount through fees, but all additional funding for disadvantage will be fully publicly funded, regardless of which sector a school belongs to.

The Government is also providing $100 million to extend the More Support for Students with Disabilities National Partnership for one year, with support for students with disability to be built in to the new funding model from 2015. A further $14.4 million will support ongoing work on consistent definitions of and data collection to inform the new loading.

These new arrangements will be phased in over six years, with the Commonwealth providing 65 per cent of the additional investment required, and the states providing the remaining 35 per cent.

National Plan for School Improvement

While Australia's overall results in reading, maths and science are well above the OECD average, our results have declined over the last decade, and several countries in our region have overtaken us in the international rankings. There is also a persistent and significant gap between our highest and lowest performing students — and these low-performing students are disproportionately from disadvantaged backgrounds.

To drive improvements in student outcomes across the board, the Government is working with the States to finalise and agree the National Plan for School Improvement, including five key reform directions: quality teaching, quality learning, empowered school leadership, meeting student need, and transparency and accountability.

The Government is providing a further $64.7 million over five years to support the implementation of the education reforms proposed under the National Plan for School Improvement. This funding will provide the Australian Curriculum, Assessment and Reporting Authority, the Australian Institute for Teaching and School Leadership and Education Services Australia with new funding to develop and deliver important parts of the National Plan for School Improvement.

The Government is committed to ensuring every child has the opportunity to achieve excellent education outcomes. The reforms proposed under the National Plan for School Improvement, supported by a new and more equitable funding system, will help deliver on this commitment.

DISABILITYCARE AUSTRALIA

The Government will provide $14.3 billion in additional funding over seven years from 2012-13 to move to full implementation of *DisabilityCare Australia* (the national disability insurance scheme) by 1 July 2019. This includes the launch funding of $2.4 billion up to 1 July 2019, and new funding of $1.9 billion for transition to the full scheme over the first five years, $3.8 billion in 2017-18 and $6.2 billion in 2018-19. The Government will provide a total of $19.3 billion to *DisabilityCare Australia* over seven years from 2012-13, inclusive of the redirection of existing disability funding.

DisabilityCare Australia will establish a national disability support system across Australia for people with significant and permanent disability to be jointly funded by Commonwealth, State and Territory governments. It will provide people with disability with choice and control over their support services and enhance their opportunities for social and economic participation.

Launch of *DisabilityCare Australia*

Building on the Government's commitment in the 2012-13 Budget, *DisabilityCare Australia* will launch in four locations from 1 July 2013 and two locations from 1 July 2014.

The launch phase of *DisabilityCare Australia* will provide eligible participants with reasonable and necessary support tailored to their individual circumstances in South Australia (for children aged 0-14 years), Tasmania (for young adults aged 15-24 years), the Hunter region in New South Wales and the Barwon area of Victoria from 1 July 2013; and in the Australian Capital Territory and the Barkly region in the Northern Territory from 1 July 2014.

Over the three year launch phase from 2013-14, around 26,000 people will benefit from *DisabilityCare Australia*.

Nationwide rollout of *DisabilityCare Australia*

Seven States and Territories have agreed to fully implement *DisabilityCare Australia* — New South Wales, Victoria, South Australia, Tasmania, Queensland, the Australian Capital Territory and the Northern Territory.

DisabilityCare Australia will provide full coverage in the Australian Capital Territory by 1 July 2016, in New South Wales, South Australia by 1 July 2018 and in Victoria, Tasmania, Queensland and the Northern Territory from 1 July 2019. The Government is committed to ongoing negotiations regarding full implementation of *DisabilityCare Australia* across the country to ensure that all Australians with significant and permanent disability receive the support they need. Once *DisabilityCare Australia* is fully implemented from 1 July 2019, around 460,000 people with significant and permanent disability will receive the support they need.

The Government will also provide general assistance to people with disability who are not eligible for an individual package of support, but who still experience barriers to social and economic participation.

Funding for the roll out of *DisabilityCare Australia*

DisabilityCare Australia will require a strong and stable funding stream to provide certainty and security. The Government will increase the Medicare levy by half a percentage point from 1.5 to 2 per cent of taxable income from 1 July 2014. This increase in the Medicare levy is expected to raise $20.4 billion between 2014-15 and 2018-19.

The money raised from the increase in the Medicare levy will be placed into a *DisabilityCare Australia* Fund (the Fund) for 10 years which will only be drawn upon to fund the additional costs of delivering *DisabilityCare Australia*. A fixed amount of the money flowing into the Fund each year will be set aside for the States and Territories. This amount will be $825 million in 2014-15 (one quarter of the money estimated to be raised in that year). The annual amount allocated to the fund will be grown in future years by 3.5 per cent per year. Over 10 years, the States and Territories will be allocated a total of $9.7 billion.

DisabilityCare Australia is fully offset to 2023-24 and beyond.

PROMOTING AUSTRALIA'S NATIONAL SECURITY AND INTERESTS

This Budget reaffirms the Government's enduring commitment to promoting Australia's national security and interests, both abroad and at home. The 2013-14 Budget supports the delivery of the 2013 Defence White Paper (DWP), strengthens Australia's air combat capabilities, progresses Australia's efforts in confronting global security challenges during a period of transition, tackles gang violence and organised crime through renewed federal leadership, and strengthens the security of our borders.

In the *Australia in the Asian Century White Paper*, the Government committed itself to extending Australia's bilateral architecture with China through regular high-level meetings between leaders and senior ministers. On 9 April 2013, Australia and China launched the Strategic Partnership — an historic agreement to a new bilateral architecture that will guide the future relationship between our two countries.

The Strategic Partnership reflects the importance Australia and China place on the bilateral relationship, its expanding scope and depth, and the shared interests of both sides including in the continued development of a stable and peaceful Asian region.

The new bilateral architecture will provide a modern platform to give renewed strategic direction to the relationship between Australia and China. It features an annual leaders' meeting; an annual Strategic Economic Dialogue, between economic ministers of both countries; and an annual Foreign and Strategic Dialogue, between foreign ministers of both countries.

Delivering a strong Australian Defence Force

The 2013 DWP builds on the *Australia in the Asian Century White Paper* and the *National Security Strategy*. It addresses significant international and domestic developments since 2009 that have influenced Australia's national security and defence settings.

The Government will provide Defence with the resources it needs to deliver on the priorities in the 2013 DWP. The Defence funding model will be based on the four-year forward estimates Budget cycle, determined on an annual basis taking into account contemporary strategic, economic and fiscal circumstances. Defence will be required to manage its resources within this four-year forward estimates funding model and will be provided with a subsequent six years of general guidance for Defence planning purposes.

This Budget provides Defence with more funding over the next four-year forward estimates period than was provided in the 2012-13 Budget. The Budget provides funding of $113.2 billion over the period 2013-14 to 2016-17, compared with $103.4 billion over the period 2012-13 to 2015-16 in the 2012-13 Budget.

The Government is committed to increase Defence funding to two per cent of GDP as and when fiscal circumstances allow. This is a long-term objective that will be implemented in an economically responsible manner.

To maintain an effective air combat capability edge before the Joint Strike Fighters enter operation early in the next decade, this Budget will provide $3.0 billion over nine years to acquire 12 new-build EA-18G Growler electronic warfare aircraft.

Centenary of Anzac

The Government will provide an additional $25 million over four years to commemorate the Centenary of Anzac. In total, Government spending of over $140 million has been provided to commemorate the Centenary of Anzac.

The new package of measures will include seven new initiatives, based on the recommendations of the Anzac Centenary Advisory Board's report. These initiatives include seed funding of $10 million in 2013-14 for the Anzac Centenary travelling exhibition, funding of $2.5 million over four years for the production of documentaries by ABC and Screen Australia, and $2.8 million over four years for grants for Centenary of Anzac history projects. The Government will also provide $2.7 million over two years for an event to commemorate the original Albany Convoy which will mark the opening of the Centenary.

Since MYEFO, the Government has also doubled the Anzac Centenary Local Grants Program to $100,000 per electorate. Grant funding worth $13.3 million in total will be available in 2013-14 and will provide communities with an opportunity to pay tribute to those involved in the First World War. The Government has also granted deductible gift recipient (DGR) status to the Anzac Centenary Public Fund at a cost of $7.5 million. DGR status will enable the public to make a tax deductible contribution to the fund, which will support a range of Centenary of Anzac projects, including the Anzac Centenary travelling exhibition as well as state and territory initiatives.

Protecting Australia's interests abroad

The 2013-14 Budget maintains Australia's efforts in confronting global security challenges, providing $616.8 million in additional funding for Australian Defence Force (ADF) operations around the world. In 2013-14, a number of Australia's key overseas military operations will conclude or transition towards a significantly different focus.

The Government remains committed to ensuring that Afghanistan never again becomes a safe haven and training ground for global terrorism. To that end, Australia has been mentoring the Afghan National Security Forces to lead security efforts in their country. With the closure of Multi National Base — Tarin Kot at the end of 2013 at least 1,000 ADF personnel will return home.

In 2014, the ADF will focus on a training role at the Afghan National Army (ANA) Officer Academy in Kabul with our British and New Zealand colleagues. In Kandahar, the ADF will continue to provide training assistance to the 205 Corps of the ANA. Post-2014, Australia is prepared to contribute to the 'train, advise and assist' mission for the Afghan National Security Forces by continuing to provide embedded Headquarters staff, advisors at the Corps level and trainers at the ANA Officer Academy in Kabul. Under an appropriate mandate, Australia remains prepared to make a Special Forces contribution, either for training or for counter terrorism purposes.

Civilian efforts on development and capacity building in Afghanistan will continue, but with a renewed focus on a national-level aid program that will strengthen Afghan institutions to carry on their important work once the Afghan Government takes lead security responsibility across their country.

While Australia's military contribution to the International Stabilisation Force in Timor-Leste will conclude by the end of 2013, Australia will continue to support capacity building as part of a broader bilateral relationship, including through Australia's development assistance program.

The Regional Assistance Mission to Solomon Islands (RAMSI) has succeeded in stabilising security conditions in Solomon Islands. Military engagement is no longer required and the Australian military will withdraw by late 2013. Australian police assistance will continue in order to further develop the Royal Solomon Islands Police Force's public order response capability, to the value of $315.6 million over four years.

Civilian support provided under RAMSI will transition to long-term development assistance as part of Australia's bilateral aid program. Assistance to the value of $160.4 million over four years will be provided to build Solomon Islands' capacity in the areas of economic and public sector governance, electoral processes and law and justice.

The 2013-14 Budget continues to demonstrate Australia's commitment to overcoming poverty around the world, providing $5.7 billion as official development assistance (ODA). The Government will continue to increase ODA to 0.5 per cent of gross national income, but will defer the target date by one year from 2016-17 to 2017-18. This decision will assist the Government to address its substantial fiscal consolidation task, but will still see the aid program grow by 42.4 per cent over the next four years and builds on the $2.0 billion increase in annual ODA expenditure over the period 2007-08 to 2012-13.

As part of Australia's commitment to helping to achieve the Millennium Development Goals (MDGs), the Government will provide $390.9 million over four years to address priority development needs in countries in the Asia-Pacific region, such as Papua New Guinea and Bangladesh, which are struggling to meet the MDGs, particularly those targeting poverty, education and maternal health.

Australia's aid program will also see a renewed emphasis on our partnerships with multilateral development institutions. The Government will bring forward existing commitments to the World Bank and the Asian Development Bank (ADB), providing these institutions with $550.4 million in 2016-17 to fund their work with the world's poorest countries. Australia will also contribute new resources to join the African Development Bank (AfDB) Group, to encourage economic and social development in Africa.

The World Bank, ADB and AfDB Group rated highly in the Government's 2012 Australian Multilateral Assessment, such that the Government can have confidence that increased funding to these institutions will deliver tangible development benefits.

Australia and China have also signed a new development cooperation partnership which will bring together efforts to address some of the most pressing development issues facing the Asia-pacific region, including drug resistant malaria, HIV/AIDS and water resource management in developing countries.

Safer communities

The Government's $149.9 million package for community safety will focus on supporting at-risk youth, assisting local communities to target crime hotspots, and strengthening law enforcement efforts to curb gang violence, organised crime, and the illegal firearms market.

At-risk communities will be supported by a $40.9 million National Crime Prevention Fund that will use the confiscated proceeds of crime to fund local youth mentoring and outreach programs and security infrastructure such as street lighting and security cameras.

The Fund will expand highly successful programs such as Youth Off The Streets and support Police Youth Citizens Clubs and Blue Light organisations to provide services including mentoring and diversionary activities. These programs have proved effective in reducing crime by targeting local needs and building a sense of citizenship within communities.

Community support programs will be complemented by strengthened law enforcement efforts. The $64.1 million National Anti-Gang Taskforce will comprise 70 members of the Australian Federal Police and state police forces to form strike teams to target gang-related crime across Australia. These officers will work with a newly established Australian Gang Intelligence Centre, which will provide national criminal intelligence on gang activity across Australia and overseas.

The $30.2 million National Border Targeting Centre will use an intelligence-led approach to target international passengers and cargo that pose the greatest risk to our community. An additional $5.6 million will be directed to efforts to target organised crime at the waterfront in Melbourne and Brisbane, building on successful efforts in Sydney.

The $9.1 million Australian Ballistics Identification Network (ABIN) will be rolled out across the country to enhance police investigations into firearms crimes. The ABIN uses advanced technology to analyse firearms seized from criminals to build a database of all weapons used in crime and recovered by police, in every State and Territory.

Strengthening our borders

This Budget includes investment of $205.8 million to combat the current rate of people smuggling to Australia. The Government will continue to ensure Australia's border agencies are equipped to manage the expected flow of irregular maritime arrivals.

The Government recognises the vital importance of ensuring strong regional cooperation to respond to the issue of irregular migration. This Budget provides a further $88.6 million of investment to strengthen regional cooperation. Funding will support further capacity building and training in regional border agencies, and will continue to support Australia's role in key regional and multilateral forums, including the Bali Process, of which Australia is a co-chair.

This Budget also includes $84.8 million to increase Australia's border patrol capabilities. The funding provides for an increased maritime and aerial surveillance presence to enhance the capacity of our border agencies to respond to issues such as people smuggling and illegal fishing.

The Government will also commission a comprehensive review of the refugee status determination process to ensure that Australia continues to provide protection to asylum seekers consistent with our international obligations.

HIGH QUALITY, AFFORDABLE AND FLEXIBLE CHILD CARE

Building on the Government's record investment this Budget will provide $660.1 million to continue the National Partnership Agreement on Early Childhood Education to ensure universal access to quality childhood education programs, including $4.5 million in Commonwealth only expenditure. This new agreement will ensure that the current level of service delivery is maintained, with additional focus given to Indigenous, vulnerable and disadvantaged children.

This Budget also includes the establishment of a $300 million Early Years Quality Fund. The fund will assist eligible long day care services to attract and retain qualified professional employees by providing funding directly to these services to help supplement wage increases.

In addition, the Government has announced $12.9 million over three years as part of a package to trial flexible child care arrangements and establish a Child Care Accessibility Fund for eligible local governments to ease critical child care shortages in their communities. The Government will provide an additional $71.1 million in 2012-13 to meet the increased demand for the Jobs, Education and Training Child Care Fee Assistance program, the family day care component of the Community Support Program and the Inclusion Support Subsidy program.

These measures build on the Government's increase in the Child Care Rebate from 30 per cent to 50 per cent of out-of-pocket costs and the annual cap from a maximum of $4,354 up to $7,500 per child to help make child care more affordable for families.

DELIVERING BETTER HEALTH SERVICES

Implementation of National Health Reform is progressing well, including the commencement in July 2012 of a new national system of funding public hospitals according to the services they deliver. Under the new funding arrangements, the Commonwealth will provide a guaranteed minimum of $16.4 billion in additional funding for public hospital services over the six years from 2014-15 to 2019-20.

A further key reform has been the establishment of 61 Medicare Locals to improve and coordinate the delivery of primary health care services throughout Australia.

In this Budget, the Government is further improving access to health care services and strengthening the system for all Australians by providing:

- $33.8 million in additional funding for the General Practice Rural Incentive Program in 2013-14 to encourage medical practitioners to move to regional and remote communities;

- $28.0 million over five years to support Medicare including by listing new items on the Medicare Benefits Schedule (MBS), funding the Medical Services Advisory Committee to review the quality, safety and cost effectiveness of new and existing items listed on the MBS, and delivering a national communications campaign about the benefits of Medicare and related services;

- $23.8 million in 2013-14 to maintain existing service levels for the Mental Health Nurse Incentive program which provides coordinated clinical support for people with severe and persistent mental illness; and

- $17.0 million in 2013-14 to replenish items within the National Medical Stockpile, Australia's strategic reserve of medicines and medical equipment for health emergencies or disasters.

The Government's existing policies are also delivering quality health care for Australians. Increases in the primary care workforce are leading to greater payments under the MBS, and the proportion of the population with some form of private health cover is now the highest in over 20 years, supported by the private health insurance rebate.

World Leading Cancer Care

In this Budget, the Government is investing $226.4 million over five years in a package of initiatives to improve cancer treatment and support services for people with cancer, their families and clinicians including:

- $55.7 million over four years to expand the BreastScreen Australia program to offer mammograms for women aged up to 74 years (increased from 69 years);

- $18.5 million over four years to fund the new Australian Prostate Cancer Research Centre and continue support for two existing Research Centres;

- $29.6 million in 2012-13 and 2013-14 to increase funding to support the dispensing of chemotherapy medicines to ensure the supply of these medicines to patients;

- $23.8 million in additional funding over four years for the Bone Marrow Transplant Program, to help ensure critically ill Australians who need bone marrow and stem cell transplants have access to these life-saving procedures;

- $19.5 million over four years to continue and expand the McGrath Foundation Breast Cancer Nurse initiative, with additional nurses supporting regional and outer metropolitan areas;

- $18.2 million over four years to provide support and care for young people living with cancer through the Youth Cancer Networks program run by CanTeen; and

- $16.1 million over four years to meet increased costs for the National Bowel Cancer Screening Program.

As part of the cancer package, the Government is investing to improve research into cancer, its causes and the effectiveness of treatments as these developments will underpin improvements in cancer outcomes over time. Key investments in this Budget include:

- $36.5 million over four years for the Victorian Cytology Service's research and data collection work to support the early detection of cervical cancer in women, which contributes to the National Cervical Cancer Screening Program (funding is already included in the forward estimates);

- $5.9 million over four years to continue Cancer Australia's National Lung Cancer Program, which is developing evidence based approaches to treatment and care to improve patient outcomes for Australia's leading cause of cancer deaths in Australia; and

- $2.4 million over four years for Cancer Australia to continue building a national cancer database to provide a better understanding of how cancer might be prevented, detected and treated.

Providing access to medicines

The Government has invested $690.5 million over five years in new listings and amendments to listings on the Pharmaceutical Benefits Scheme (PBS) since MYEFO. These include providing:

- $452.7 million over five years to list pregabalin (Lyrica®) for the treatment of chronic nerve pain — the first PBS listing specifically for this condition; and

- $220.2 million over five years to list boceprevir (Victrelis®) and telaprevir (Incivo®), two ground-breaking new treatments for chronic hepatitis C.

Closing the Gap in Indigenous Health Outcomes

The Government has committed $777 million over three years for a new *National Partnership Agreement for Closing the Gap in Indigenous Health Outcomes* which will ensure Indigenous Australians continue to benefit from improved health services. This commitment is in addition to the $3.4 billion *Stronger Futures in the Northern Territory* package the Government is currently delivering.

Improving the sustainability of the health budget

Total health expenditure has grown in nominal terms by over 40 per cent from 2007-08 to an estimated $64.6 billion in 2013-14. Decisions taken by this Government in previous Budgets have already put health expenditure on a more sustainable footing through measures such as the means testing of the private health insurance rebate, which commenced on 1 July 2012 and capping growth in the rebate which is expected to commence on 1 April 2014. These measures allow the Government to continue to provide substantial support for a wide range of health needs, including through the MBS, the PBS and the private health insurance rebate.

In this Budget the Government is also taking additional steps to improve the long-term sustainability of the health care system by reprioritising health expenditure to ensure funding is appropriately targeted to where it is most needed. Measures in this Budget include:

- aligning the indexation of MBS fees to the financial year in line with many other Government programs meaning MBS fees will be indexed on 1 July rather than 1 November each year. The next indexation will occur on 1 July 2014. This will provide savings of $664.4 million over four years;
- ensuring funding for Medicare items is used more effectively by preventing General Practitioners from claiming a consultation service as well as a Chronic Disease Management item for the same patient on the same day, saving $119.6 million over four years; and
- improving the sustainability of the Extended Medicare Safety Net arrangements by increasing the upper threshold from $1,221.90 to $2,000, from 1 January 2015, whilst retaining the lower threshold for around five million people with concession cards and around two million FTB A eligible families at $610.70, saving $105.6 million over four years.

A Plan for Australian Jobs

The Australian Government is investing $1 billion through its Industry and Innovation Statement, *A Plan for Australian Jobs*, to support and create jobs.

Backing Australian companies to win more work at home

The Government has assisted Australian businesses win work on major Government, and Government-funded, projects through requirements for Australian Industry Participation Plans that outline how local companies will get a fair chance of winning work.

More opportunities will be created for local firms through new laws that will require any project in Australia worth $500 million or more to include an Australian Industry Participation Plan. Additional new work, worth $1.6 billion a year, could be won by Australian businesses. Global companies with projects worth more than $2 billion will need to involve competitive Australian companies in their global supply chains.

A new Australian Industry Participation Authority will oversee these requirements.

Strengthening Australia's anti-dumping reforms

Australia is one of the most active countries at pursuing companies that break free trade rules and unfairly dump goods here. The Government is boosting safeguards for Australian industry by:

- establishing a new Anti-Dumping Commission to investigate complaints;
- increasing funding to the Australian Customs and Border Protection Service for investigations; and
- introducing stronger remedies against overseas producers that deliberately breach anti-dumping rules.

Supporting Australian industry to increase exports

The Government has increased funding for research and innovation by 35 per cent since 2007-08. Bringing together Australia's best research minds and most innovative businesses will build on the benefits of this research investment.

The Government will spend more than $500 million to establish up to 10 Industry Innovation Precincts to bring together industry, companies, universities, research institutions and experts in technology and business. Led by industry, these Precincts will share skills, knowledge and talent and build firms that can compete in world markets. The Government has agreed that the first two precincts will be the manufacturing precinct and the food precinct.

Helping Australian small businesses grow and create new jobs

Australia does well in starting up new businesses, but they need help to grow and compete. The Government's Small Business Advisory Service and Enterprise Connect business support service have provided valuable assistance to new and established small to medium-sized enterprises (SMEs).

The Government is now providing $378.6 million in new funding to stimulate private sector investment in entrepreneurial SMEs. Additionally, the Government will:

- improve tax arrangements to encourage investors to back Australian businesses;
- introduce a new $27.7 million Enterprise Solutions Program to help SMEs bid for public sector work; and
- expand the services of Enterprise Connect to cover businesses in information technology, transport, logistics and professional services.

Promoting resources exploration

To ensure Australia remains an attractive destination for resources investment, the Government is providing $154.0 million over four years to Geoscience Australia to support its continued investment in pre-competitive geological information. Pre-competitive information informs the Government's decision making on areas viable to offer for private exploration and subsequently promoting the exploration potential of those areas.

This funding will also maintain operation of the Australian Tsunami Warning System and Geoscience Australia's groundwater research and information services.

Flexible support for job seekers

In addition to support to help Australian firms expand, the Government is investing $5.3 billion over the four years from 1 July 2012 in Job Services Australia (JSA). JSA is the national employment services system that provides jobseekers with flexible and tailored support to help them find a job. The JSA model has achieved 1.5 million job placements since its introduction in July 2009.

The Government is investing around $300 million over four years to support job seekers transition into work. This includes encouraging labour force participation by increasing the income free area under Newstart Allowance and other similar allowances from $62 per fortnight to $100 per fortnight from 20 March 2014, and indexing by CPI from 1 July 2015, so that recipients can earn more before their payment reduces; and enabling eligible single parents who have moved off payment due to earnings from employment to retain eligibility for the Pensioner Concession Card for a period of 12 weeks.

The Government is also extending the Pensioner Education Supplement to all Newstart Allowance single principal carer recipients. Payment of up to $1,622.40 in

2013 (subject to bi-annual indexation), will help recipients with the cost of study while they gain an initial qualification to assist them to re-enter the labour market.

SUSTAINING HIGHER EDUCATION GROWTH

The Government's higher education reforms following the Bradley Review mean that Australian universities have and will continue to benefit from substantial increases in funding. There are now around an extra 149,000 Commonwealth supported university student places in 2013 compared to 2007. Commonwealth funding for university places has increased by 75 per cent between 2007 and 2013, from $3.5 billion in 2007 to $6.1 billion in 2013.

The Government is expanding on this significant investment in funding for university places. Funding of $97 million will be provided to increase the number of Commonwealth supported places in postgraduate and sub-bachelor courses from 2014 to 2017. These places will be allocated by the Government to priority areas, including teacher education and language courses.

The Government has also increased investment in research funding to universities by 59 per cent since 2007-08. In the Budget, the Government is providing $135.3 million for 150 four-year Future Fellowships to attract and retain the best Australian and international mid-career researchers in areas of crucial national importance.

Since 2007, the Government has funded $1.3 billion in national scale collaborative research infrastructure to further develop Australia's research capacity and improve innovation and research outcomes. Funding of $185.9 million over two years will be provided in this Budget to fund the operation of research infrastructure constructed under the National Collaborative Research Infrastructure Scheme and the Super Science Initiative. This infrastructure includes marine research vessels, biotechnology, supercomputing facilities and telescopes.

STRENGTHENING OUR SKILLS AND WORKFORCE DEVELOPMENT

In this Budget, the Government is ensuring that Australia's vocational education and training system, apprenticeship and workforce development programs are delivering the skills needed by industry. A new Alternative Pathways Program will be established with $68.8 million over four years, in recognition that for industries facing skill shortages there needs to be more flexible pathways for completing a trade or technical qualification. The Government is also ensuring more effective workplace training for Australian enterprises by establishing the $45 million Skills Connect Fund to streamline the delivery of government assistance.

The Government is also ensuring that support is in place for vulnerable young people to benefit from the opportunities provided by our strong education and training system. The Government will provide $127.7 million to extend the successful suite of Youth Attainment and Transitions programs for 12 months. These programs provide flexible and personal support to help at risk youth remain engaged with education or employment and make positive life choices. The extension of these programs will allow support to continue pending a broader review of services for young people that will be considered in the 2014-15 Budget.

A MORE RESILIENT AND SUSTAINABLE REGIONAL AND RURAL AUSTRALIA

National Drought Program Reform

The Government has committed to a National Drought Program Reform including investing $99.4 million over four years for a new Farm Household Allowance (FHA). The FHA will be paid at the Newstart allowance rate and will be available to eligible farm families in periods of hardship. The FHA will better support farmers and their families to prepare for future challenges, including drought.

The reform also supports farmer resilience through social support services, the development of a new farm business management skill set, and the development of tools and technologies to inform farmers' risk management decision making. Enhancements to the Farm Management Deposits (FMD) Scheme under the Government's *Farm Finance* initiative will also help farmers better prepare for the future.

Farm Finance

The Government will further assist agricultural businesses through *Farm Finance*. Under the program eligible farm businesses will be able to receive concessional loans of up to $650,000. Farm Finance also includes funding for 17 additional full-time equivalent rural financial counsellors, and establishing a nationally consistent approach to farm debt mediation.

In addition, the Government will enhance the FMD Scheme to give greater flexibility to primary producers in managing their finances. The Government will increase the non-primary production income threshold for FMDs from $65,000 to $100,000, allowing primary producers to diversify their income base and also allow primary producers who hold multiple FMDs to be able to consolidate them once the accounts have been held for a minimum of 12 months.

Supporting jobs and growth in Tasmania

The Government has committed over $330 million to support the historic Tasmanian Forests Agreement, which provides a long-term future for the forestry industry and environmental protection for our world famous forests.

The Government has further committed over $22 million to strengthen economic development, generate jobs, improve productivity and promote long-term economic, social and environmental sustainability in Tasmania. The Government is investing in a new intermodal freight terminal at Bell Bay to facilitate the movement of Tasmania's logging and other bulk freight; supporting the Australian Maritime College to deliver specialised training for over 500 maritime students; and assisting the Australian shipping industry to meet its future workforce training needs. This is in addition to the $4 million of funding to expand the Vodafone Hutchison call centre, securing 750 jobs in Hobart.

Recognising Tasmania's leading role in Antarctic research and operations, the Government will provide over $42 million to support ongoing research and the maintenance of our presence in Antarctica.

Reef Rescue

The Government has committed to providing another $200 million for Reef Rescue over the next five years. This will help farmers in the Great Barrier Reef catchment to improve farming practices to reduce sediment and nutrient run off, which will improve the quality of water entering the Great Barrier Reef Lagoon.

Disaster relief and recovery

This year, a number of states were impacted by fires, floods and severe weather with some Queensland communities experiencing a third consecutive year of flooding. The Government is committed to supporting individuals, communities and local economies to help them recover and rebuild following disasters. The Government expects to contribute an estimated $1.9 billion towards recovery and reconstruction costs in Queensland for the Cyclone Oswald response. Total Commonwealth expenditure under the Natural Disaster Relief and Recovery Arrangements (NDRRA) for the five years from 2012-13 is estimated to be $6.2 billion.

Floods support package

The Government will provide $69.9 million towards a Floods Support Package, including $57.2 million exceptional circumstances funding under the NDRRA, to help Queensland communities and local economies recover from flooding that occurred in Queensland in early 2013. This includes assistance for clean-up and recovery efforts, and support for businesses, primary producers, and local councils, including a commitment of $40.0 million towards a betterment fund to help rebuild local council assets to a more disaster resilient standard.

Affordable insurance

Floods and other natural disasters have put upward pressure on insurance premiums in many regions, especially those at high risk of such events. The only sustainable way to reduce insurance premiums is to reduce the level of risk. That is why the Government is investing $100 million in natural disaster mitigation directed specifically at lowering insurance premiums. A National Insurance Affordability Council will assess proposed mitigation projects, review the potential and actual impact on insurance premiums and explore ways to make flood risk data more widely available.

Murray-Darling Basin Plan

The Government is providing $3.5 billion over 12 years to support the implementation of the historic Murray-Darling Basin Plan. As a part of this, $1.8 billion will be invested to return an additional 450 gigalitres (GL) to the environment on top of the benchmark 2,750 GL delivered through the Basin Plan. The 450 GL will be recovered through projects that will minimise the social and economic impact on Basin communities, and will not only benefit major wetlands across the Basin and the lower lakes in South Australia, but also improve the resilience of the Basin as a whole, and its ability to withstand shocks, including drought.

Delivering homelessness services

In this Budget, the Government will provide $159.0 million in 2013-14 for a one-year transitional National Partnership Agreement with the states and territories to ensure the continued provision of vital homelessness services. This includes $38 million for a development fund to provide additional accommodation to help people move into safe and sustainable housing. All states and territories have agreed to match the Commonwealth's investment, bringing the total investment under the agreement to $320 million. The agreement is an important first step as the Government continues to work with the states and territories towards an integrated and holistic response to homelessness beyond 2014.

The transitional agreement builds on the Government's previous National Partnership Agreement on Homelessness with the states and territories, which invested a total of $1.1 billion over four years.

Royal Commission into Institutional Responses to Child Sex Abuse

The Government will provide $434.1 million over four years to fund the Royal Commission into Institutional Responses to Child Sex Abuse. The Commission will inquire into institutional responses to allegations and incidents of child sexual abuse and what institutions and governments should do to better protect children against sexual abuse in institutional contexts in the future. This funding includes $45 million over four years from 2012-13 to provide expert services to help support survivors of child sexual abuse.

SUPPORTING SENIOR AUSTRALIANS

The Government will provide $127.0 million for the *Supporting Senior Australians* package to improve the wellbeing of senior Australians and position Australia to take advantage of the opportunities of an ageing population. It is a continuing priority of Government to turn grey into gold.

The Government will trial a new measure to assist senior Australians to downsize their home without putting their eligibility for the Age Pension at risk. A three year trial will commence on 1 July 2014 where senior Australian homeowners who downsize when buying another home will have an option to invest at least 80 per cent of surplus funds remaining (up to a cap of $200,000) in a special account. The funds invested in the account would be exempt from the Age Pension means test for up to 10 years. The scheme would only be available to Australians over Age Pension age who have owned their home for at least 25 years.

The Government will expand the Broadband for Seniors program which provides senior Australians with access to computer and internet facilities in their local area, at a cost of $9.9 million over four years. This includes an additional $5.0 million for training, with a focus on cyber security issues and multimedia devices.

In addition, $4.6 million over four years will be provided to establish the Andrew Fisher Applied Policy Institute for Ageing (the Institute) to provide advice on how to best position Australia for the challenges and opportunities of an ageing population. The Institute will aim to be an international leader in policy advice on ageing, with a focus on ageing in the Asia-Pacific region.

Recognising the circumstances of the many older Australians who suffer from chronic wounds, the Government will undertake a scoping study to provide a detailed cost-benefit analysis of options to improve the management of chronic wounds.

A CREATIVE NATION IS A PRODUCTIVE NATION

The Government values the role creativity plays in Australian society and the ongoing contribution made by the cultural sector to the economy. The national cultural policy for the next decade, *Creative Australia*, will deliver the arts, cultural heritage and creative industries with the vision and strategy to sustain the nation's creative excellence in the 21st Century.

The Government will provide:

- $75.3 million in the Australia Council for the Arts which will enable it to undertake necessary structural reforms, providing additional support for arts organisations;

- additional funding of $30.2 million to support Australia's elite training organisations and Major Performing Arts companies;

- $11.3 million in additional funding to strengthen professional development of Indigenous art workers and centres. A further $14.0 million will enable the expansion of the Indigenous Languages Support program to ensure the maintenance, revival and transmission of Australian Indigenous languages;

- $40.0 million from the Regional Development Australia Fund, to leverage an additional $100.0 million in partnership funding between government and the private sector. Funding of $8.6 million to Creative Partnerships Australia will further encourage private sector support for the Arts, contributing to the long-term sustainability of Australia's creative sector;

- $21.1 million for traineeships, vocational training, representation at community cultural events, skills development in secondary schools and business grants;

- $41.6 million to attract major international film productions to Australia. This includes a $21.6 million grant provided to The Walt Disney Studios' upcoming filming of *20,000 Leagues Under the Sea: Captain Nemo* in Australia, which is expected to encourage significant new investment and job growth in the local film industry; and

- $10.0 million for the nation's screen production industry, as well as $5.4 million to assist community broadcasting.

Australia's national broadcasters

The Government recognises the significant contribution that Australia's national broadcasters — the Australian Broadcasting Corporation (ABC) and the Special Broadcasting Service (SBS) Corporation — make to informing and entertaining millions of Australians every day.

Australia's media landscape is evolving and the Government remains committed to adequately funding the national broadcasters, ensuring that they are able to continue to deliver quality content across all technology platforms.

The 2013-14 Budget will provide $129.4 million over five years in additional funding to the national broadcasters. This funding will enable the ABC to continue to improve its news and current affairs programming and enhance its online digital content. This funding will also enable the SBS to maintain the quality of existing services and support its continued acquisition of local content. Furthermore, the Government will provide the ABC with a $90.0 million loan for a new office in Melbourne, enabling it to consolidate its Melbourne operations in one site and achieve significant operational savings. These measures build on commitments the Government made in its 2012-13 Budget.

The Government is continuing to provide appropriate base funding to the national broadcasters. This Budget provides base funding of $568.7 million to the SBS and $2.5 billion to the ABC, over three years from 2013-14.

REFORMS FOR A FAIRER SUPERANNUATION SYSTEM

The Government is introducing reforms to improve the fairness, sustainability and efficiency of the superannuation system.

- The tax exemption for earnings on superannuation assets supporting income streams will be better targeted, by limiting it to the first $100,000 of annual earnings for each individual and taxing earnings above that threshold at the concessional rate of 15 per cent from 1 July 2014. Equivalent arrangements will be enacted for defined benefit schemes.

- A $35,000 concessional contributions cap will be provided for all people aged 60 and over from 1 July 2013 and for all people aged 50 and over from 1 July 2014.

- The excess contributions tax system will be made fairer by taxing excess concessional contributions at a person’s marginal tax rate, plus an interest charge, rather than always taxing them at the top marginal tax rate. Individuals will also be given greater choice by allowing them to withdraw any excess concessional contributions from their super fund.

- Normal pension income test deeming arrangements will be extended to superannuation account-based income streams assessed from 1 January 2015. Products held by pensioners before 1 January will be grandfathered.

- The take-up of deferred lifetime annuities will be encouraged by providing them with the same concessional tax treatment that earnings on superannuation assets supporting retirement income streams receive from 1 July 2014.

- The account balance threshold below which lost superannuation accounts are required to be transferred to the ATO will be increased from $2,000 to $2,500 from 31 December 2015, and to $3,000 from 31 December 2016.

These reforms will result in savings to the Budget of around $0.9 billion over the forward estimates period.

In addition to these reforms, the Government will establish a Council of Superannuation Custodians to ensure that future changes are consistent with a Charter of Superannuation Adequacy and Sustainability.

PROTECTING THE CORPORATE TAX BASE FROM EROSION AND LOOPHOLES

The Government will move to protect the corporate tax base from erosion and loopholes. Protecting the corporate tax base will contribute to a sustainable fiscal position that is essential to Australia's future prosperity. These measures address a number of tax planning strategies used by multinational enterprises and large domestic companies to exploit design flaws, vulnerabilities and unexpected interactions in Australia's corporate tax laws.

This package of measures directly addresses these weaknesses by:

- addressing aggressive tax structures that seek to shift profits by artificially loading debt in Australia;
- better targeting resource sector concessions for depreciating assets to support genuine exploration;
- improving the integrity of, and ensuring better compliance with, the foreign resident capital gains tax regime;
- closing down loopholes in the Offshore Banking Unit and consolidation of business entities regimes;
- preventing sophisticated investors from engaging in 'dividend washing'; and
- increasing ATO compliance checks on offshore marketing hubs and business restructures.

STATEMENT 2: ECONOMIC OUTLOOK

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

STATEMENT 2: ECONOMIC OUTLOOK

Australia's economic fundamentals are strong and the outlook remains favourable, with the Australian economy expected to continue outperforming most of the developed world.

Global financial market sentiment has improved noticeably since late 2012, although global economic conditions remain challenging, particularly in the major advanced economies. The global economy is also undergoing enormous structural change, as the weight of global economic activity increasingly shifts towards Asia.

Against the backdrop of a fragile global recovery, the Australian economy is expected to undergo two large and important transitions over the forecast period. Following the largest investment boom in Australia's history, the resources boom will transition away from the investment phase towards exceptional growth in production and exports. More broadly, the Australian economy will transition to non-resources drivers of growth.

Australia starts this transition from a position of impressive resilience, with some of the strongest economic fundamentals in the world. Economic growth is solid, the unemployment rate is low, inflation is well contained, and public finances are strong. However, the unusual combination of a persistently high Australian dollar and lower terms of trade is having an acute and enduring effect on profits and prices growth across the economy, and this has weighed heavily on nominal GDP growth and government revenue.

OVERVIEW

The outlook for the Australian economy is favourable, with solid growth, low unemployment and well-contained inflation. GDP growth is forecast to be close to trend at 2¾ per cent in 2013-14 and 3 per cent in 2014-15, and the economy is expected to continue to outperform most other advanced economies over the forecast period. However, nominal GDP growth is expected to remain subdued, reflecting the falling terms of trade and the enduring effect of the persistently high Australian dollar on profits and prices in many sectors of the economy, particularly those that are trade-exposed.

Global financial market conditions have improved noticeably since late 2012 and while global growth remains subdued, it is expected to strengthen over the forecast period. There are signs that economic conditions have stabilised in China and strengthened moderately in the United States and Japan, though this is partly offset by the deepening recession in the euro area.

The Australian economy is expected to continue to outperform most other advanced economies over the forecast period (Chart 1). While other countries have struggled to overcome weak growth and high unemployment, Australia's growth has remained around trend and the unemployment rate has stayed low, with the Australian economy now more than 13 per cent larger than in late 2007. By the end of the forecast period, the Australian economy is expected to be around 22 per cent larger than in late 2007. This growth is well above that expected in the United States, Japan and the euro area (Box 1).

Chart 1: Real GDP Growth

Source: ABS cat. no. 5206.0, national statistical agencies, Thomson Reuters and Treasury.

Around half of all advanced economies are yet to return to pre-crisis output levels, and a number have returned to recession. The sluggish recovery underway in most advanced economies has also reinforced the profound structural changes in the global economy. As the centre of global economic activity shifts towards Asia, emerging market economies are expected to account for around three-quarters of global growth over the forecast period, with emerging Asian economies, particularly China and India, driving the bulk of this growth.

Continued strong growth in our region will provide a solid foundation for opportunity and economic growth in Australia. External demand from Asia, particularly for resources like iron ore, coal and liquefied natural gas (LNG), is expected to remain strong. Strong growth in emerging Asia will also open up new export opportunities outside the resources sector, as a growing Asian middle class increasingly demands a diverse range of higher quality goods and services.

The resources sector has responded to the unprecedented growth in demand for resources from Asia with the largest investment boom in Australian history. Total resources investment surged to over $100 billion in 2011-12, more than 600 per cent higher than it was a decade ago. LNG projects are increasingly dominating the pipeline of investment, driven by the demand for energy in Asia, but large-scale investment in iron ore and coal extraction and transportation is also contributing to a lift in export capacity.

Resources investment is expected to peak in 2013-14 at record highs, and then remain elevated through to at least the middle of the decade. The pipeline of resources investment remains substantial, with over $260 billion of investment either committed to or under construction. While resources investment will begin to detract from growth after it passes its peak, the resources sector will continue to make an important contribution to growth as the record level of investment fuels exceptional growth in resources production and exports. Non-rural commodity export volumes are expected to grow by more than 30 per cent from 2011-12 to 2014-15.

Just as the resources boom will transition from its investment phase to the production phase over the next two years, the broader Australian economy is also expected to begin its transition to non-resources drivers of growth. Growth in the non-resources parts of the economy is expected to be underpinned by solid growth in household consumption, a recovery in the housing sector and a modest recovery in business investment outside the resources sector. While this transition may not be seamless, Australia starts from a position of strength and resilience.

Household consumption is expected to grow solidly over the forecast period, and provide a platform for recovery in some non-resources parts of the economy. Recent interest rate cuts have supported a tentative rebound in consumer confidence, and improved global financial market sentiment alongside recent growth in equities markets and house prices are supporting growth in household wealth. Recent strength in retail trade is also indicative of the recovery underway in household consumption, with positive implications for the retail sector and other related sectors, such as wholesale trade and road transport. Nonetheless, a return to the strong but unsustainable pre-crisis growth rates of household consumption is not expected.

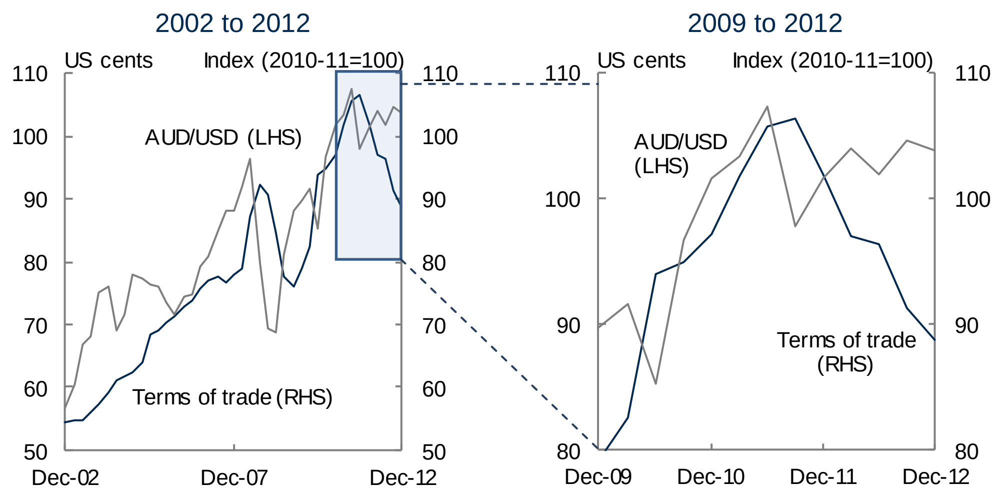
There are also early signs of a recovery in the housing sector. In the December quarter National Accounts, dwelling investment recorded its second consecutive quarter of positive growth, growing at its strongest quarterly rate in over two years. After a decade of lacklustre growth in housing construction, conditions are favourable for a sustained recovery. Low interest rates, favourable demographics, low vacancy rates, rising house prices and high rental yields are all expected to support demand in the housing construction sector over the forecast period.

Growth in business investment outside the resources sector has been subdued since the global financial crisis, with many firms reluctant to invest during a period of global uncertainty. However, non-resources investment is expected to pick up modestly over the forecast period as firms build capital stocks to respond to strong external demand from Asia and improving conditions in the non-resources sectors at home. While credit conditions tightened substantially during the global financial crisis, these pressures have since eased, and are not expected to constrain business investment over the forecast period. Investment will also be supported by low interest rates and the low cost of imported capital goods.

However, in the near term, economic growth outside the resources sector will continue to face some headwinds, and conditions are expected to remain uneven across the economy. This partly reflects the magnitude of the transition underway, but also structural challenges — such as the persistently high Australian dollar — which are weighing heavily on a number of sectors.

Despite the lower terms of trade and declining prices for Australia's key commodity exports, the Australian dollar remains around parity with the US dollar (Chart 2), and has appreciated by around 20 per cent against the Japanese yen over the past six months. The trade weighted index of the Australian dollar also remains near 30-year highs. While the strength of the Australian dollar reflects the fundamental strength of the Australian economy, the persistently high dollar is producing especially challenging conditions in labour intensive and trade-exposed sectors such as manufacturing and tourism. In the retail and wholesale trade sectors, consumer caution and changing spending patterns have added to the competitive pressure to pass on lower import prices, which has squeezed profit margins.

Chart 2: Terms of Trade and the Australian dollar



Source: ABS cat. no. 5302.0 and 5206.0.

Employment growth has been modest over the past 12 months, reflecting the uneven conditions across the economy and the dampening effect of the persistently high Australian dollar on trade-exposed sectors. Still, the unemployment rate has remained low and risen only slightly to its current level of 5.5 per cent. This stands in stark contrast to most other developed economies. The average unemployment rate across the OECD has remained stubbornly high at around 8 per cent. In the euro area, the unemployment rate has continued to climb over the past year and now stands at euro-era highs of around 12 per cent. In the United States, the unemployment rate has also remained high and is currently around 7½ per cent.

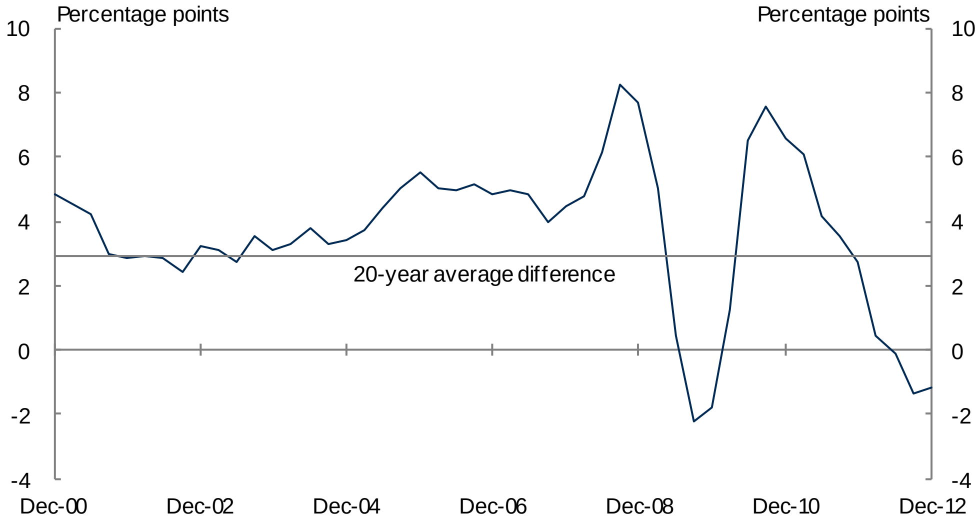
Employment growth is expected to strengthen as growth picks up in some non-resources sectors of the economy and the level of employment remains high in the resources sector. Employment in Australia is expected to grow by 1¼ per cent to the June quarter 2014 and 1½ per cent to the June quarter 2015, and over 350,000 jobs are expected to be created over the forecast period. However, with the resources sector transitioning to the less labour intensive production phase, and the high Australian dollar still weighing on many sectors of the economy, the unemployment rate is expected to rise by ¼ of a percentage point to 5¾ per cent in 2013-14, but then stabilise at that level over the remainder of the forecast period and remain amongst the lowest in the developed world. In line with the slight rise in the unemployment rate, wage growth is expected to be slightly below trend, and inflation is forecast to be well contained in the bottom half of the Reserve Bank's target band.

The outlook for solid economic growth is consistent with the fiscal consolidation underway at all levels of government. Consolidation at the federal level has been targeted to limit any adverse impact on economic growth and employment, and the expected overall effect of policy decisions in 2012-13 and 2013-14 is largely unchanged since MYEFO. Fiscal consolidation has provided scope for an easing in monetary policy, with the Reserve Bank reducing the cash rate by 200 basis points since November 2011. With wage growth and inflation remaining contained, ongoing fiscal consolidation will continue to provide scope for monetary policy to respond to conditions as appropriate. As is standard practice, the forecasts assume policy interest rates move broadly in line with market expectations at the time that the forecasts are finalised, with the market expectation at that time being that policy interest rates would be slightly lower over the coming year.

Australia's current low unemployment rate and solid real GDP growth are a testament to the resilience of Australia's real economy over the past five years. However, Australia's nominal economy has been less immune to global conditions over this period, with prices absorbing much of the effect of a weaker global economy, declining terms of trade, and high Australian dollar. Although iron ore prices have recovered from their lows of late 2012, the unusual combination of a persistently high dollar and lower terms of trade has put acute competitive pressure on resources and non-resources sectors, resulting in weaker profitability, subdued price growth, and unusually low nominal GDP growth.

Nominal GDP growth has historically exceeded real GDP growth by around 2½ percentage points, but this relationship has reversed recently (Chart 3). Nominal GDP grew by only 2.0 per cent through the year to the December quarter 2012, well below the rate of real GDP growth of 3.1 per cent. This was the third consecutive quarter where nominal GDP growth was outpaced by real GDP growth, the first time this has happened in at least the past half-century.

Chart 3: Difference between nominal and real GDP growth (through the year)



Source: ABS cat. no. 5206.0.

Notwithstanding some volatility in iron ore prices toward the end of 2012, non-rural bulk commodity prices have fallen over the past twelve months. Iron ore spot prices in early May 2013 are around 30 per cent lower than their peak in 2010-11, while thermal and metallurgical coal prices have fallen from peaks in 2008-09 and 2010-11 respectively. With overall export prices expected to continue to weaken over the forecast period, the terms of trade are expected to decline by 14 per cent from their peak in late 2011 to 2014-15, placing continued downward pressure on nominal GDP growth.

Domestic price pressures are also expected to remain subdued over the forecast period. Despite business investment reaching record highs as a share of GDP, growth in investment and producer prices has remained contained. Outside the resources sector, measures of capacity utilisation have been subdued since the global financial crisis, while the Australian dollar has remained elevated, making conditions unusually challenging for firms operating in the trade-exposed sectors of the economy. In response to these pressures, firms have been absorbing costs rather than passing on higher prices, which has weighed on profitability. However, many firms are also adapting to these pressures by improving productivity and adjusting business models. These acute competitive pressures are expected to persist over the forecast period, and will continue to place downward pressure on prices and nominal GDP growth.

Despite increased pressures from the economic transition and the high Australian dollar, Australia's economic fundamentals are expected to remain strong over the forecast period. Real GDP growth is forecast to remain close to trend at around 2¾ per cent in 2013-14 before rising to 3 per cent in 2014-15. The unemployment rate is expected to remain low and inflation is forecast to remain well contained.

The key international risk is the potential for a re-escalation of the euro area crisis, as highlighted by recent developments in Italy and Cyprus. Many developed economies are still struggling to achieve sustainable growth and reduce high rates of unemployment. In the euro area, more growth-oriented fiscal policies are warranted in those countries that have the capacity to implement them. More progress also needs to be made towards a banking and fiscal union, and to implement deep reforms to product and labour markets that would boost growth.

In the United States, the already fragile recovery is at risk if policymakers fail to raise the debt ceiling in a timely manner. There is also a need to develop a better pathway for fiscal policy, with more supportive short-term settings combined with the need for a credible and substantial medium-term fiscal consolidation plan. However, recent policy actions in the United States and Europe have meant that some of the worst crisis risks have abated since the end of 2012, and global conditions are expected to gradually improve.

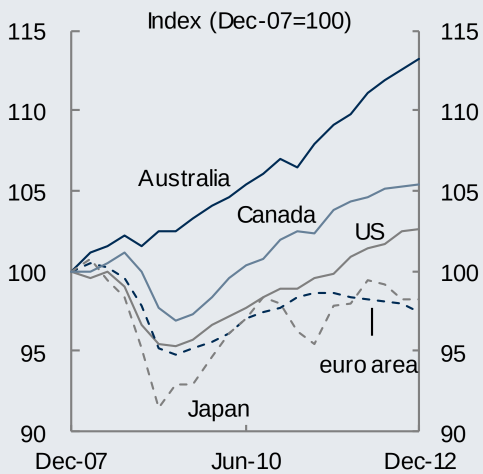
Domestically, the transmission of volatility abroad to commodity prices presents a considerable risk to the forecast for nominal GDP growth. Australia's own economic transition presents both upside and downside risks to the domestic outlook, but a key risk is that the transition to new drivers of growth will be less than seamless, with the persistently high Australian dollar weighing heavily on firms in the trade-exposed sectors of the economy. Still, with a low unemployment rate, well-contained inflation, and low public debt, Australia embarks on this transition with some of the strongest economic fundamentals in the developed world.

Box 1: International comparisons

Australia's economy continues to outperform most other advanced economies in terms of economic growth and employment.

The Australian economy has grown by over 13 per cent since the end of 2007. By contrast, the United States economy has grown by around 3¼ per cent, and both the euro area and Japan are yet to make up lost ground following the global financial crisis (Chart A).

Chart A: Real GDP

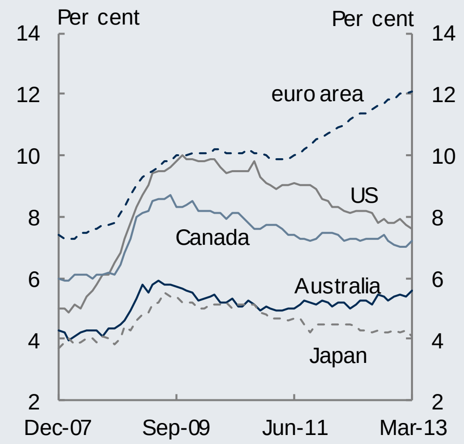


Source: ABS cat. no. 5206.0, national statistical agencies, Thomson Reuters and Treasury.

Australia's outperformance is expected to continue. By the end of the forecast period, the Australian economy is expected to be around 22 per cent larger than in late 2007. This growth is well above that expected from the United States (around 9 per cent), Japan (around 2 per cent) and the euro area (which is not expected to return to late-2007 levels by mid-2015).

The Australian labour market also continues to outperform that of many other advanced economies. While many advanced economies experienced significant rises in their unemployment rates during the crisis, the unemployment rate rose less than 2 percentage points in Australia before easing back to around 5¼ per cent through 2011 and 2012 (Chart B).

Chart B: Unemployment rates



Source: ABS cat. no. 6202.0, national statistical agencies, Thomson Reuters and Treasury.

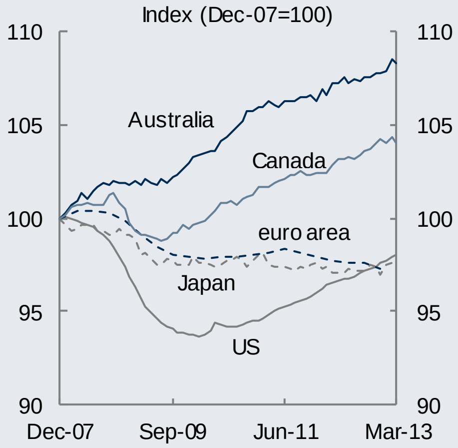
Australia's strong labour market performance over the past five years reflects the economy's resilience in the face of adverse global economic conditions, sound macroeconomic policy, and flexible working arrangements that have enabled the labour market to adjust through lower wage growth and a reduction in average hours worked rather than through job losses. The combination of these factors has resulted in Australia not experiencing the significant economic and social costs seen in many other advanced economies.

Box 1: International comparisons (continued)

In contrast, the level of employment in the United States and euro area has fallen significantly and is yet to return to pre-crisis levels (Chart C). While Australia has added around 950,000 jobs since the end of 2007, millions of jobs have been lost in other advanced economies, including more than 4 million in the euro area and around 2½ million in the United States. There are now around 200 million unemployed people worldwide, an increase of 28 million since 2007.

Despite a range of pressures from the weak global environment and high level of the dollar, the Australian unemployment rate has remained low, and at 5.5 per cent is lower than in every major advanced economy except Japan.

Chart C: Employment



Note: Data for the euro area are quarterly.
Source: ABS cat. no. 6202.0, national statistical agencies, Thomson Reuters and Treasury.

Summary of forecasts

World GDP growth is expected to pick up gradually over the forecast period from its current subdued rate, as growth in emerging market economies picks up a little, the recovery in the United States continues to gradually gather momentum, and the euro area eventually recovers from recession. The world economy is forecast to grow by 3¼ per cent in 2013, and by 4 per cent in both 2014 and 2015.

Australia's major trading partners (export weighted) are expected to grow at a robust rate over the forecast period, reflecting the ongoing rapid growth of emerging Asia. Major trading partner growth is forecast to be 4½ per cent in 2013 and 4¾ per cent in both 2014 and 2015.

Australia's real GDP is forecast to grow by 2¾ per cent in 2013-14 and by 3 per cent in 2014-15. The main drivers of economic growth are expected to be non-rural commodity exports and household consumption.

Household consumption is expected to grow solidly at 3 per cent in both 2013-14 and 2014-15. This outlook is consistent with moderate growth in employment and wages, and improving, but subdued, growth in household wealth. The household saving ratio is expected to ease but remain elevated over the forecast period.

Dwelling investment growth is expected to be above-trend over the forecast period, with low interest rates, rising dwelling prices, favourable demographics and tight rental market conditions supporting a pick-up in homebuyer demand. Dwelling investment is forecast to grow by 5 per cent in 2013-14 and 5½ per cent in 2014-15.

New business investment is expected to grow solidly in 2013-14, growing by 4½ per cent and reaching a record high share of GDP. Growth is expected to moderate in 2014-15 as resources-related investment detracts from growth, but this should be partly offset by recovering investment outside the resources sector. New business investment is expected to grow by 1 per cent in 2014-15.

Public final demand is expected to remain flat in 2013-14, before growing by ½ of a per cent in 2014-15, consistent with the fiscal consolidation underway across all levels of government.

Exports are expected to grow by 6½ per cent in 2013-14 and 7 per cent in 2014-15, driven by exceptional growth in non-rural commodity exports, as a number of large resources projects progressively enter the export phase. Non-commodity goods exports and services exports are expected to grow modestly, in line with the expected pick-up in demand for higher quality goods and services from emerging market economies.

Imports are expected to grow by 6 per cent in 2013-14 and by 3 per cent in 2014-15. Capital goods imports associated with the expansion of the LNG sector are expected to be a significant driver of the increase in 2013-14, though imports growth will slow as investment in the resources sector passes its peak.

The **terms of trade** are expected to decline by ¾ of a per cent in 2013-14 and 1¾ per cent in 2014-15, as increases in global supply, led by Australia, place downward pressure on some key non-rural commodity prices. The decline in the terms of trade reflects the ongoing transition underway in the resources sector, from a phase of high prices driving a rapid expansion in supply, to one of strong growth in export volumes.

The **current account deficit** is expected to widen slightly to 3¾ per cent of GDP in 2013-14 before narrowing to 3¼ per cent of GDP in 2014-15. The widening of the deficit in 2013-14 reflects continued strong growth in resources investment-related imports coupled with the expected decline in the terms of trade. The subsequent narrowing in 2014-15 reflects an improvement in the trade balance owing to strong growth in non-rural bulk commodity exports.

Employment growth is expected to be 1¼ per cent through the year to the June quarter 2014 and 1½ per cent through the year to the June quarter 2015, as investment and growth pick up in the non-resources sectors of the economy. The **unemployment rate** is expected to drift up slightly to 5¾ per cent by the June quarter 2014 and stabilise around this rate through to the June quarter 2015. The **participation rate** is forecast to remain close to historical highs at around 65 per cent.

Wage growth is expected to remain subdued over the forecast period, consistent with the outlook for moderate employment growth. The **Wage Price Index** is forecast to grow 3½ per cent through the year to the June quarters of 2014 and 2015.

Inflation is expected to remain well contained, consistent with ongoing competitive pressures from the sustained high dollar and the moderate outlook for wages and employment. Both **Headline and underlying inflation** are forecast to be 2¼ per cent through the year to the June quarters of 2014 and 2015.

Nominal GDP is expected to grow by 5 per cent in both 2013-14 and 2014-15, well below the 20-year average of 6½ per cent. This largely reflects the expected decline in the terms of trade and slightly below-trend growth in domestic prices.

Table 1: Domestic economy forecasts[(a)]

	Outcomes(b)	Forecasts		
	2011-12	2012-13	2013-14	2014-15
Panel A - Demand and output(c)				
Household consumption	3.2	2 1/2	3	3
Private investment				
Dwellings	-3.6	1/2	5	5 1/2
Total business investment(d)	20.8	10 1/2	4 1/2	1
Non-dwelling construction(d)	37.6	18 1/2	5	-2 1/2
Machinery and equipment(d)	10.1	1 1/2	2 1/2	5
Private final demand(d)	6.2	4	3 1/2	2 3/4
Public final demand(d)	2.3	- 1/2	0	1/2
Total final demand	5.3	3	2 3/4	2 1/4
Change in inventories(e)	-0.1	0	0	0
Gross national expenditure	5.2	3	2 3/4	2 1/4
Exports of goods and services	4.7	7	6 1/2	7
Imports of goods and services	11.8	5	6	3
Net exports(e)	-1.3	1/2	0	1
Real gross domestic product	**3.4**	**3**	**2 3/4**	**3**
Non-farm product	3.3	3	2 3/4	3 1/4
Farm product	9.0	-8	4	0
Nominal gross domestic product	5.0	3 1/4	5	5
Panel B - Other selected economic measures				
External accounts				
Terms of trade	0.4	-7 1/2	- 3/4	-1 3/4
Current account balance (per cent of GDP)	-2.7	-3 1/2	-3 3/4	-3 1/4
Labour market				
Employment(f)	1.2	1 1/4	1 1/4	1 1/2
Unemployment rate (per cent)(g)	5.1	5 1/2	5 3/4	5 3/4
Participation rate (per cent)(g)	65.3	65	65	65
Prices and wages				
Consumer price index(h)	1.2	2 1/2	2 1/4	2 1/4
Gross non-farm product deflator	1.7	0	2	1 3/4
Wage price index(f)	3.7	3 1/2	3 1/2	3 1/2

(a) Percentage change on preceding year unless otherwise indicated.
(b) Calculated using original data unless otherwise indicated.
(c) Chain volume measures except for nominal gross domestic product which is in current prices.
(d) Excluding second-hand asset sales between the public sector and the private sector.
(e) Percentage point contribution to growth in GDP.
(f) Seasonally adjusted, through-the-year growth rate to the June quarter.
(g) Seasonally adjusted rate for the June quarter.
(h) Through-the-year growth rate to the June quarter.

Note: The forecasts are based on several technical assumptions. The exchange rate is assumed to remain around its recent average level — a trade-weighted index of around 78 and a United States dollar exchange rate of around 103 US cents. Interest rates are assumed to move broadly in line with market expectations. World oil prices (Malaysian Tapis) are assumed to remain around US$106 per barrel. The farm sector forecasts are based on an assumption of average seasonal conditions.

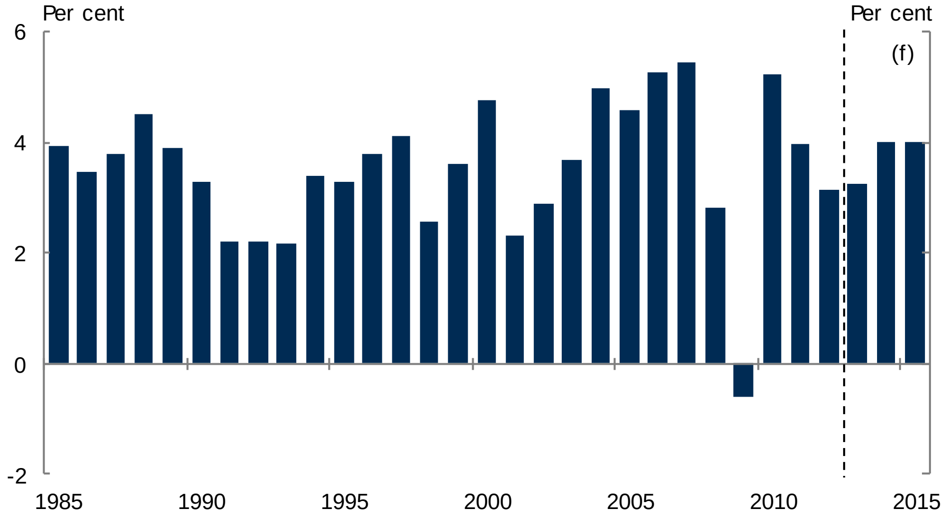
Source: ABS cat. no. 5206.0, 5302.0, 6202.0, 6345.0, 6401.0, unpublished ABS data and Treasury.

THE OUTLOOK FOR THE INTERNATIONAL ECONOMY

Global financial market conditions have improved noticeably since late 2012 and global economic activity is expected to gradually strengthen over the forecast period. While acute crisis risks have abated due to policy actions in the United States and Europe, the recovery is fragile and downside risks remain. Many advanced economies face deep-seated challenges with weak growth, high unemployment and unsustainable public finances. It is likely that the uncertainty surrounding the prospects for a lasting resolution to the euro area's crisis, and the potential for renewed volatility in financial markets, will continue for some time. Growth in a number of advanced economies is also being constrained by their fiscal austerity measures. As such, global growth remains subdued, with the recovery only expected to strengthen noticeably from 2014 onwards.

Global economic growth is expected to gradually improve over the forecast period, as major economies experience a gradual pick-up in their growth rates. World GDP growth is forecast to be 3¼ per cent in 2013, and 4 per cent in both 2014 and 2015 (Chart 4).

Chart 4: World GDP growth



Source: IMF World Economic Outlook April 2013, Thomson Reuters and Treasury.

China's growth outlook remains positive, economic conditions in the United States are looking more encouraging, and the proactive policy stance Japan has taken since late 2012 will help support its growth, especially in the short term. However, the euro area recession has deepened and events in Italy and Cyprus have served as a reminder that the sovereign debt crisis is far from resolved. Unemployment in many advanced economies remains high and a number of these economies (including the United States and Japan) face the challenge of undertaking significant medium-term fiscal consolidation without undermining their recoveries. In the case of Japan, ensuring a sustainable return to growth will also require an extensive program of structural reform.

The growth of emerging market economies in 2012 was noticeably affected by the knock-on effects of recessions in Europe and Japan and slow growth in the United States. This was exacerbated by a slowing in domestic demand in some of the emerging market economies, particularly India. Despite the slowdown, growth in emerging Asia has remained relatively robust. The stabilisation in China's growth since mid-2012 is expected to have continuing spillover benefits to the rest of Asia, as will the improved outlook for the United States.

The economies of Australia's major trading partners are expected to grow at a robust rate over the forecast period, largely reflecting ongoing strong growth in emerging Asian economies. GDP growth in Australia's major trading partners (export weighted) is forecast to be 4½ per cent in 2013 and 4¾ per cent in both 2014 and 2015 (Table 2).

Table 2: International GDP growth forecasts[(a)]

	Actuals	Forecasts		
	2012	2013	2014	2015
China	7.8	8	7 3/4	7 3/4
India(b)	4.0	5 3/4	6 1/2	6 1/2
Japan	2.0	1 1/4	1	1
United States	2.2	2	2 1/2	2 1/2
Euro area	-0.6	- 1/2	1	1 1/2
Other East Asia(c)	3.8	4 1/2	4 3/4	5
Major trading partners	4.1	4 1/2	4 3/4	4 3/4
World	3.2	3 1/4	4	4

(a) World, euro area, and other East Asia growth rates are calculated using GDP weights based on purchasing power parity (PPP), while growth rates for major trading partners are calculated using export weights.
(b) Production-based measure of GDP.
(c) Other East Asia comprises the Newly Industrialised Economies of Hong Kong, South Korea, Singapore and Taiwan and the Association of Southeast Asian Nations group of five (ASEAN-5), which comprises Indonesia, Malaysia, the Philippines, Thailand and Vietnam.
Source: National statistical publications, IMF, Thomson Reuters and Treasury.

Economic conditions in China strengthened in the second half of 2012 after the Chinese authorities adopted more accommodative policy settings particularly in relation to credit. Total social financing — a broad measure of new finance activity — surged in the second half of 2012 and has remained strong in 2013. While real activity for the March quarter was weaker than expected given these favourable credit conditions, strong credit growth should provide an increasing impetus to economic activity over the remainder of the year. While this is expected to underpin economic growth of 8 per cent in 2013, a continued muted response in the real economy to the expansive credit conditions would present some downside risk to this forecast.

China's economic growth is expected to ease marginally to 7¾ per cent in both 2014 and 2015, in line with China's evolving medium-term growth potential. This lower, though still robust rate of growth reflects a view that the Chinese authorities will promote a pattern of economic growth that moves away from the very high rates of investment seen in the past. The prospects for more moderate growth also reflect the fading benefits of past reform and opening-up policies, and the projected easing in the growth of China's urban labour supply. Despite the expected moderation in Chinese growth, China's economy has grown by more than 40 per cent since 2008, and so China will continue making a very substantial contribution to global growth.

The risks to the outlook beyond the near term centre on the Chinese Government's ability to manage the difficult transition to a more sustainable pattern of growth. This includes addressing the growing pressures from the rapid growth in investment, which has been increasingly tilted towards investment projects with low rates of return. These pressures have seen growing indebtedness among local governments and signs of capital misallocation. Added to these internal risks for China are continued downside risks from the ongoing uncertainty among advanced economies. Nevertheless, the Chinese Government still has sufficient policy space to shelter the economy from any short-term adverse impacts.

Economic conditions in the euro area have deteriorated further. Forward-looking indicators for the core economies of Germany and France imply that activity remains weak at best, and the euro area periphery remains in deep recession. Economic sentiment and credit growth remain weak, unemployment continues to reach new euro-era highs, and ongoing fiscal austerity and private sector deleveraging will continue to drag on growth.

In contrast to the recessionary conditions in the euro area's real economy, the region's financial markets have calmed somewhat in recent months. Nevertheless, recent developments in Cyprus and Italy serve as a clear reminder that risks remain and that the crisis in the euro area is far from resolved. The widespread public reaction in many euro area countries to prolonged fiscal austerity and structural change highlights the large implementation risks the euro area faces to put in place the reforms needed to produce a lasting resolution to the crisis. The initial proposal for the official assistance program for Cyprus contained a levy on all depositors in Cypriot banks, including deposits insured under European law. While the levy on insured depositors was subsequently withdrawn, it still may have undermined confidence across the euro area, and created uncertainty about whether bank depositors in other troubled euro area economies could face similar measures. The eventual bail-in of uninsured bank depositors in Cyprus, and conflicting views over the design of a banking union, further point to the difficulty of coordinated euro area decision making in implementing the reforms necessary to resolve the crisis.

Given the ongoing deterioration in economic activity, and the range of policy challenges in restoring economic growth, recovery in the euro area is expected to be delayed and weaker than previously anticipated. Euro area GDP is forecast to record its third calendar year of negative growth since the onset of the global financial crisis five years ago, with a contraction of ½ of a percentage point in 2013, before returning to modest growth in 2014 and 2015.

Fiscal issues continue to dominate the outlook in the United States. Congress came to an agreement on 1 January to avoid the majority of the 'fiscal cliff', averting a sharp fiscal tightening that would likely have pushed the economy back into recession. However, automatic expenditure reductions, which were initially delayed to 1 March, were subsequently allowed to be implemented in their entirety and will drag on already subdued growth. The independent non-partisan Congressional Budget Office estimates that GDP growth in 2013 would be roughly 1½ percentage points faster if not for the fiscal tightening currently being enacted. Accordingly, the United States economy is forecast to grow at 2 per cent in 2013, before picking up to 2½ per cent in both 2014 and 2015.

Abstracting from fiscal policy developments, the United States economy has held up reasonably well, with clear signs of underlying strength in the private sector economy. Private consumption and business investment — which have traditionally been key drivers of growth — have been solid over much of the past year. The housing sector continues to gather momentum with house prices consistently rising over the past year, and construction activity picking up strongly in late 2012. The housing sector could thus provide a welcome upside to growth prospects. A further positive sign is the improvement in the labour market, with employment growth over the past several months being relatively strong.

While the United States is expected to continue its gradual recovery, it faces a key near-term risk from the need to raise the federal government's legislated debt ceiling. If the debt ceiling is not raised in a timely manner this may trigger a re-emergence of financial market turbulence and may damage growth prospects for the United States and the global economy. While there have been positive developments in the labour market, unemployment levels are still elevated, and the long-term unemployed still account for around 40 per cent of total unemployment.

The near-term outlook for Japan has also become more positive in recent months. The new Japanese Government has brought with it a more flexible approach to fiscal policy. Monetary policy has also become much more stimulatory. The Bank of Japan has announced an aggressive unconventional monetary policy response, with the intention of using asset purchases to double the size of its balance sheet and achieve a new inflation target of 2 per cent within two years. The Bank of Japan's measures aim to put an end to 20 years of deflation and help spur an economic recovery. It will need to be complemented by much-needed and broad-ranging structural reforms, with further reforms due to be announced by the Japanese Government mid-year. The substantial depreciation of the yen over the past several months, while a source of contention, will also support Japan's growth.

India's economy experienced a marked slowdown over the course of 2011 and 2012, reflecting a variety of domestic structural constraints, such as persistently high inflation, and widening fiscal and current account deficits, as well as weaker global growth. While growth in the Indian economy is expected to recover noticeably over the next two years, the extent of the recovery is likely to be impeded somewhat by various supply-side constraints, which may deter a stronger upswing in investment. A key downside risk to the outlook for India is the country's current account deficit, which could become unsustainable if capital flows reverse under unfavourable global or domestic circumstances.

While a number of Asian economies experienced a slowdown in 2012 due to weaker external conditions, the ASEAN-5 economies, particularly Indonesia, have continued to record strong growth driven by domestic demand. The highly trade-exposed Newly Industrialised Economies (NIEs) such as Korea and Taiwan were significantly affected by the subdued global environment in 2012. Looking ahead, the expected pick-up in global economic activity should see growth in the NIEs rebound over the forecast period.

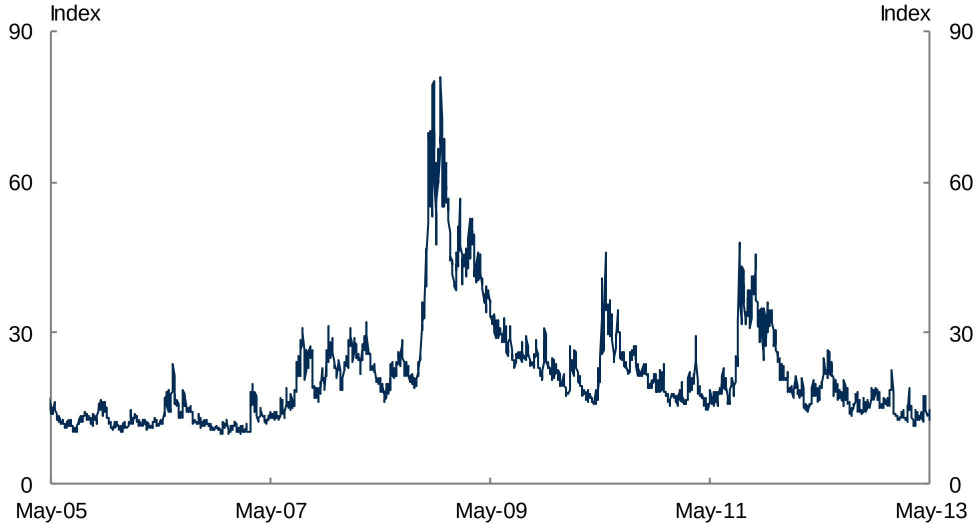
Overall, forecasts are for a continuation of below-trend global growth this year before improving to around trend rates in 2014. Risks to the outlook, while more balanced than in 2012, are still tilted to the downside, with the euro area sovereign debt crisis the key risk to the global recovery.

The actions of the European Central Bank (ECB) continue to ease financial pressures in troubled euro area economies. However, on its own the ECB's actions cannot improve the region's medium to long-term growth prospects. With the euro area's recession deepening, the European populace is increasingly weary of enforced austerity, economic stagnation, very high unemployment and deep structural reforms. The prospects for European governments implementing the measures necessary to resolve the crisis and restore growth remain highly uncertain. While clearly a challenge, further progress will need to be made on achieving a fiscal and banking union and on structural reforms if the euro area is to return to growth. Given ongoing uncertainty about the prospects for such reform, the threat of contagion from the euro area sovereign debt crisis is likely to persist.

With Europe's sovereign debt crisis and the debt ceiling debate in the United States both far from resolved, the current state of relative calm in global financial markets could easily be disrupted. The periodic bouts of financial market volatility since the global financial crisis (Chart 5) are a reminder that confidence remains fragile with significant downside risks to the global economic outlook. With many advanced economies under significant fiscal constraints, and policy actions by major advanced economy central banks already very accommodative and unconventional, there is very limited space to respond to any further negative shocks to the global economy.

Chart 5: Financial market volatility expectations

Chicago Board Options Exchange Market Volatility Index (VIX)



Note: The VIX shows the market's expectations of volatility in the S&P 500 index over the next 30 days.
Source: Bloomberg.

Indeed, the unconventional monetary policy actions being undertaken may themselves carry risks. The size of the stimulus being implemented by the Bank of Japan, while warranted by circumstances, necessarily involves risks including to financial stability and capital flows. The Bank of Japan is also undertaking this stimulus in an environment of unprecedented levels of Japanese public debt, with the IMF projecting Japan's net public debt to exceed 150 per cent of GDP towards the end of the decade. The Japanese Government needs to put in place an integrated growth package to ensure monetary and fiscal stimulus feeds into sustained improvement in the real economy.

In China, there are risks around how the authorities manage the difficult transition to a new growth model, which will require a formidable set of reforms including to China's financial system and, more broadly, the way in which capital is allocated across the economy. However, so far China has managed the transition reasonably well, and China has a proven capacity to support growth in the event of a more substantial slowdown.

The relative stability of global oil prices since the start of 2013 is consistent with a global outlook that remains relatively subdued in the short term, and with oil supply in both Organisation of Petroleum Exporting Countries (OPEC) and non-OPEC countries being maintained. However, if political tensions in the Middle East escalate, a sharp rise in oil prices could occur. A significant and sustained oil price shock would pose an additional risk to an already uncertain global economic outlook.

THE OUTLOOK FOR THE DOMESTIC ECONOMY

Demand and output

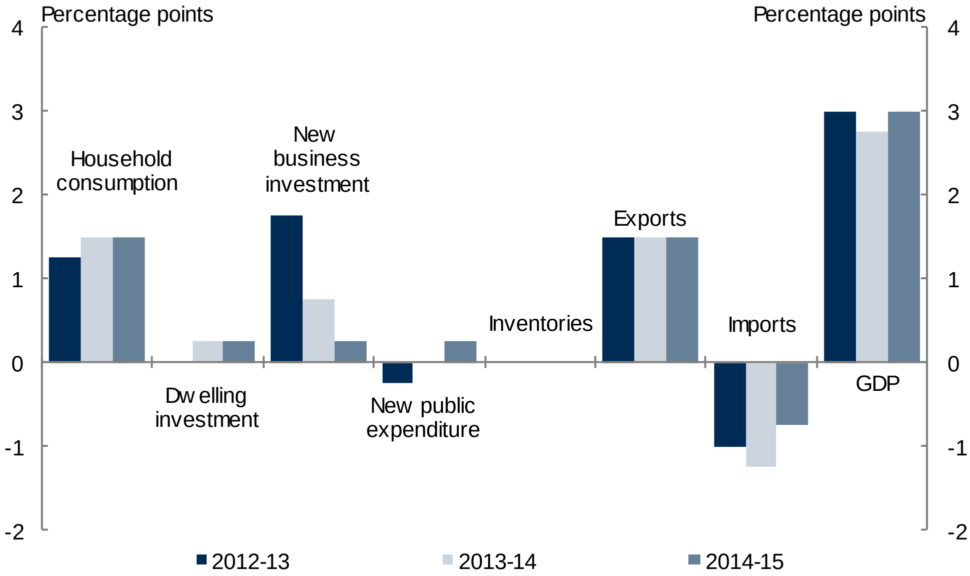
The Australian economy is expected to grow solidly over the next two years with real GDP growth forecast to be close to trend at 2¾ per cent in 2013-14, before increasing to 3 per cent in 2014-15 (Chart 6).

The economy will undergo a substantial transition over the forecast period. A record surge in resources investment is nearing its peak and growth will increasingly be supported by rising export volumes and a pick-up in investment outside the resources sector. The level of economic activity is also expected to be supported by continued strong investment in the resources sector and solid growth in household consumption.

Conditions are expected to remain uneven across the economy, with the transition underway occurring alongside ongoing pressure from the sustained high Australian dollar and continued household caution around debt accumulation. The sustained strength of the Australian dollar continues to weigh heavily on a number of sectors, particularly those that are trade-exposed, and has forced many firms to explore new markets and business practices to meet this competitive pressure. Firms have also responded by focussing on productivity and containing costs, and many have accepted substantially tighter profit margins.

While conditions will remain uneven, economic growth outside the resources sector is expected to pick up over the forecast period, supported by low interest rates and emerging opportunities presented by the shift in global growth towards Asia.

Chart 6: Contributions to real GDP growth



Note: Business investment and public expenditure are adjusted for second-hand asset sales between the public sector and the private sector.
Source: ABS cat. no. 5206.0 and Treasury.

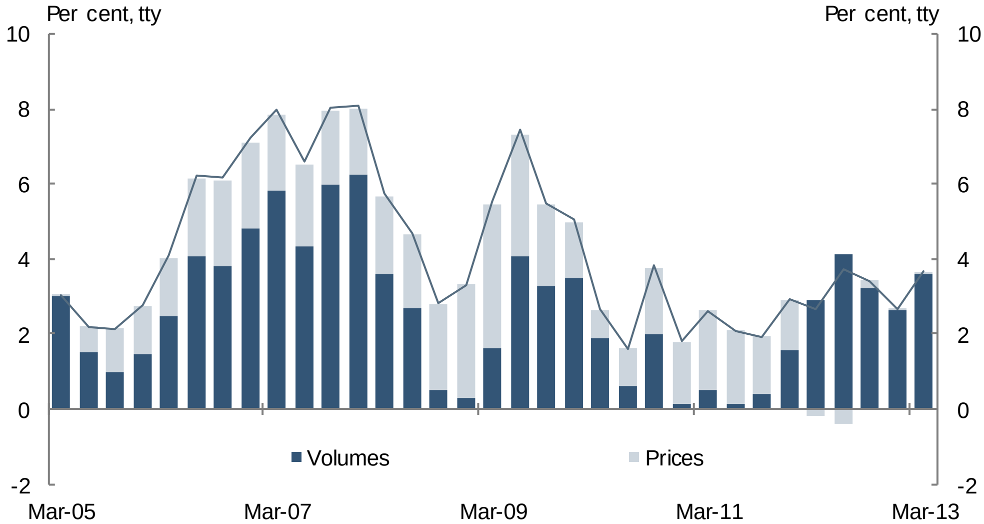
Household consumption

Household consumption is expected to grow solidly over the forecast period and provide a platform for recovery in some non-resources parts of the economy. Consumption growth is forecast to rise to 3 per cent in both 2013-14 and 2014-15.

Consumer confidence has improved, household incomes are growing moderately, and household net worth has grown. Interest rate cuts over the past 18 months have supported the recent improvement in consumer confidence, and improved global financial market sentiment along with recent growth in equities markets and house prices are supporting growth in household wealth. Recent strong growth in retail trade is also indicative of the recovery underway in household consumption.

Still, while growth in retail trade volumes has been strong, weak growth in retail prices reflects the competitive challenges faced by retailers from lower import prices and changing consumer behaviour (Chart 7). Household spending patterns have shifted, with the continued fall in the discretionary share of household expenditure adding to the challenging conditions faced by retailers over recent years. Households have also reduced their appetite for debt and increased their level of saving since the crisis, even as economic conditions have improved (Box 2). Consequently, while the growth in consumption is forecast to be solid, it is not expected to be as strong as that seen prior to the global financial crisis. The household saving rate is forecast to remain close to current levels, though ease a little as global conditions improve and confidence picks up.

Chart 7: Retail trade turnover



Source: ABS cat. no. 8501.0.

Dwelling investment

Dwelling investment is forecast to grow by 5 per cent in 2013-14 and 5½ per cent in 2014-15, supporting construction and related activity in the non-resources sectors of the economy. The recovery in dwelling investment is expected to be supported by continued low interest rates and other favourable market fundamentals, such as rising dwelling prices, high rental yields and low vacancy rates.

Favourable demographics are also expected to drive a pick-up in homebuyer demand. Over the past decade, Australia's population growth has often outpaced the growth in the stock of dwellings. Still, this demand is expected to be tempered by continued household caution towards debt accumulation, as well as ongoing supply constraints associated with the high cost of development, land release restrictions, and complex planning and approval processes (Box 2).

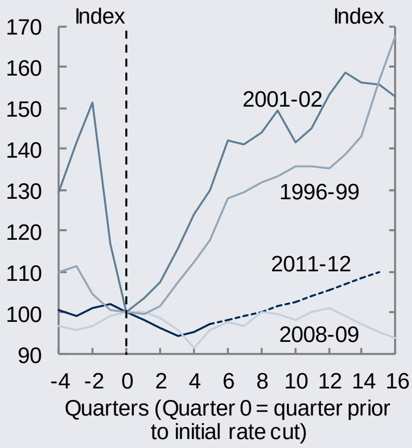
Growth is expected to pick up in both the medium-to-high density sector and the detached housing sector over the forecast period. The medium-to-high density sector has been the key source of growth in dwelling investment over the past year, as homebuyers increasingly look to make more economical use of land. There are also encouraging signs that growth in the detached housing sector is beginning to recover. Detached housing investment recorded its second consecutive quarter of positive growth in the December quarter 2012, supporting the strongest quarterly rate of growth in dwelling investment in over two years.

Box 2: Dwelling investment response to interest rate cuts

The Reserve Bank of Australia's (RBA) official interest rate cuts since late 2011 have seen the average standard variable mortgage rate drop to around 6.2 per cent. This is a decrease of around 240 basis points since November 2007, saving a household with a $300,000 mortgage more than $5,500 a year.

After four quarters of contraction, there are signs that the dwellings sector has begun to respond to the reduction in interest rates, with positive growth recorded in the first half of 2012-13. Consistent with near-term forward indicators and strong economic fundamentals (including favourable demographics, low vacancy rates and high rental yields), the recovery is expected to gain momentum over the next two years. However, growth is not expected to be as strong as that seen during previous interest rate easing cycles (Chart A).

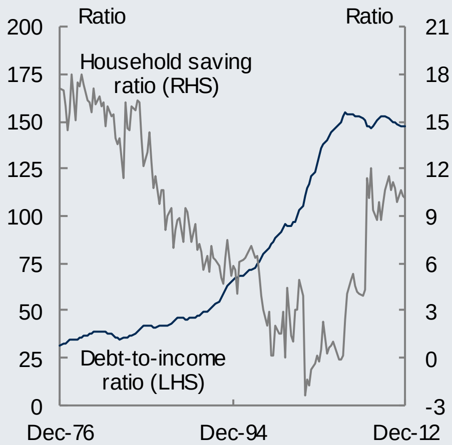
Chart A: Dwelling investment response to easing cycles



Source: ABS cat. no. 5206.0, RBA and Treasury.

The sector's relatively subdued response to the current cycle reflects a number of factors. First, households have taken a more cautious approach to saving and borrowing since the crisis, even as economic conditions have recovered. During this period consumption growth has moderated, while at the same time disposable income has grown solidly. This has seen the household saving ratio rise sharply and remain elevated relative to recent rates of saving, which included a brief period of dissaving in the early 2000s (Chart B).

Chart B: The cautious consumer



Source: ABS cat. no. 5206.0 and RBA.

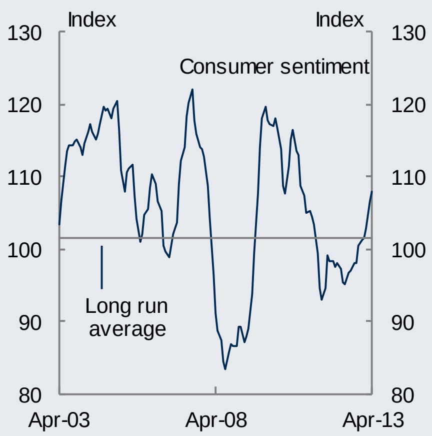
However, when the recent increase in the saving rate is compared to a longer time period, the current level of saving appears consistent with more normal household behaviour. The sustained period of decline which began in the 1980s reflected the trend towards the incorporation of businesses and exceptionally strong household credit growth, which was in part driven by financial deregulation and the economy's transition to a low inflation

Box 2: Dwelling investment response to interest rate cuts (continued)

environment. Reflecting a marked reduction in credit growth from the double-digit rates experienced in the 1990s and early 2000s, the level of household debt as a share of disposable income has stabilised. Households are responding to the reduction in interest rates by increasing their principal mortgage payments and paying down existing debt, and have become less inclined to take out new housing loans. While the lower interest rates are expected to encourage credit growth, it is unlikely to return to the rates seen prior to the crisis.

The change in household behaviour since the crisis has been largely driven by heightened global uncertainty, which has continued to weigh on households' concerns about their ability to service debt. However, consistent with the nascent recovery in dwelling investment, there have been improvements in household confidence, with a turnaround in consumer sentiment at the start of the year (Chart C).

Chart C: Consumer sentiment (three month moving average)



Source: Westpac– Melbourne Institute.

A second factor contributing to the subdued dwellings recovery is the moderation in dwelling prices over the past two years. Following average annual growth of almost 10 per cent in the 2000s, which coincided with exceptionally strong growth in household credit, dwelling prices fell by an annual average of 2.1 per cent in 2011 and 2012. Slower growth in dwelling prices drove down expectations for capital gains, dampening both owner-occupier and investor demand.

Supply constraints (particularly land supply restrictions) have also weighed on the dwellings recovery. The trend towards higher density living partly reflects this constraint, as homebuyers increasingly make more economical use of land. Nevertheless, with a number of state government proposals to boost housing supply recently announced, supply constraints could ease over the forecast period.

Dwelling prices have begun to increase and a number of survey measures point to the expectation of further recovery over the next two years. Coupled with an expectation of continued low interest rates and state government efforts to target supply constraints, the improving outlook is likely to encourage further investment over the forecast period.

Business investment

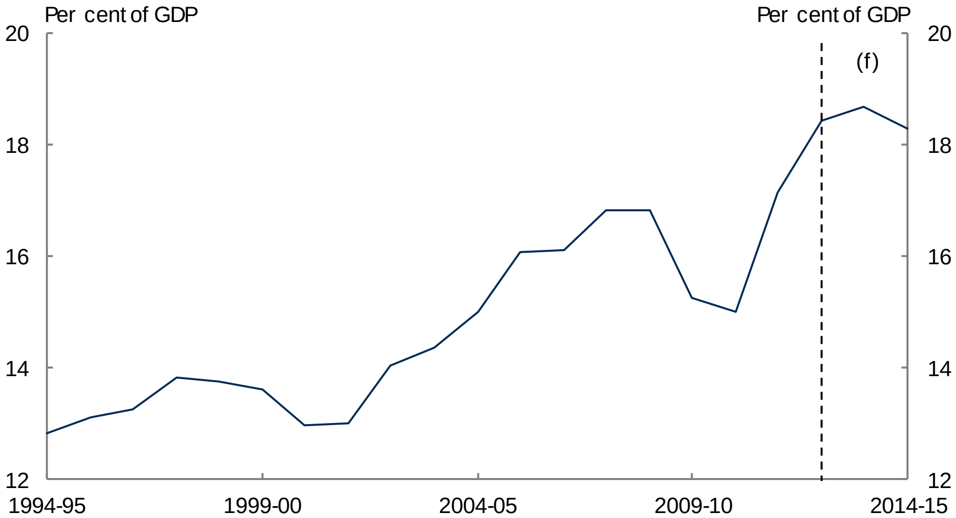
Over recent years, new business investment has been underpinned by record volumes of investment in the resources sector. Total resources investment surged to over $100 billion in 2011-12, more than 600 per cent higher than it was a decade ago. Elsewhere in the economy, investment has been modest with an uncertain global outlook, the high Australian dollar and domestic competitive pressures all weighing on activity.

Still, the outlook for business investment remains solid, with new business investment forecast to grow by 4½ per cent in 2013-14 and 1 per cent in 2014-15, and peak at a record 19 per cent of GDP in 2013-14 (Chart 8).

The pipeline of resources investment is substantial with over $260 billion of investment either committed to or under construction, underpinned by strong ongoing demand for Australia's resources from emerging market economies in Asia. Total resources investment, including exploration and development, is expected to peak at a record 8 per cent of GDP in 2013-14, before easing over the rest of the forecast period. Historically high levels of resources investment are expected through to at least the middle of the decade.

Non-resources related investment is expected to strengthen over the forecast period, stimulated by low interest rates and a broadening of economic growth. Consistent with this, business credit growth should pick up from current below-average rates. In recent years, business credit has failed to keep pace with resources dominated investment growth as resource companies have relied primarily on internal funding to support their investment.

Chart 8: New business investment as a share of GDP



Note: Adjusted for second-hand asset sales between the public sector and the private sector.
Source: ABS cat. no. 5206.0 and Treasury.

New engineering construction is expected to remain robust in the near term. After surging by 51 per cent in 2011-12, new engineering construction is forecast to grow by 24 per cent in 2012-13 and 6 per cent in 2013-14. As spending on a number of major projects passes its peak, new engineering construction is expected to ease, falling by 4½ per cent in 2014-15, but remaining near historical highs (Box 3).

Investment in new machinery and equipment is expected to grow modestly in 2013-14 before strengthening in 2014-15, reflecting the subdued but strengthening outlook for the non-resources sector. Business confidence and conditions continue to be affected by global uncertainty, with survey measures indicating some weakness in capital expenditure intentions for the non-resources sector in the near term. However, low interest rates and improving conditions in the non-resources sectors are expected to support a modest rebuilding of capital stocks. New machinery and equipment is forecast to grow by 2½ per cent in 2013-14 and 5 per cent in 2014-15.

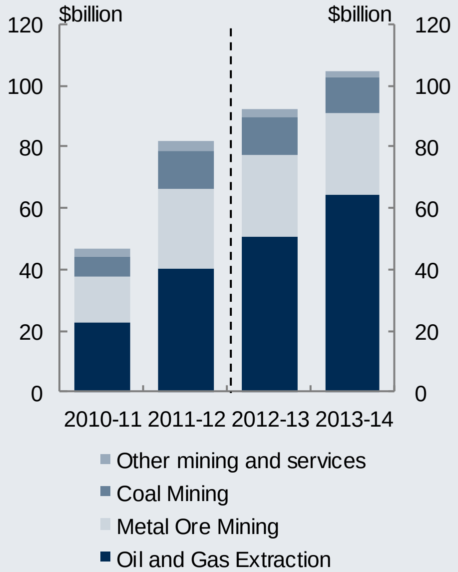
Continued uneven conditions in the non-resources-related sectors of the economy are expected to weigh upon investment in the commercial property sector over the next two years, with underlying demand in the sector likely to remain subdued. Investment in new non-residential buildings is expected to grow by 1½ per cent in 2013-14 and 3½ per cent in 2014-15.

Box 3: Resources investment and exports

Over the past decade, the rapid development of economies in the Asian region has had a transformative impact on the Australian economy, driving the largest resources boom in Australia's history. Strong demand for resources propelled commodity prices to record levels, supporting rapid expansion of global energy and minerals supply. While this investment phase is nearing its peak, the record expansion of production and exports will continue to support growth well into the decade.

The initial surge in resources investment was driven by coal and iron ore projects, largely to meet demand for steel in China. In recent times, the majority of resources investment has been in LNG projects to support rising global demand for energy (Chart A).

Chart A: Mining capital expenditure

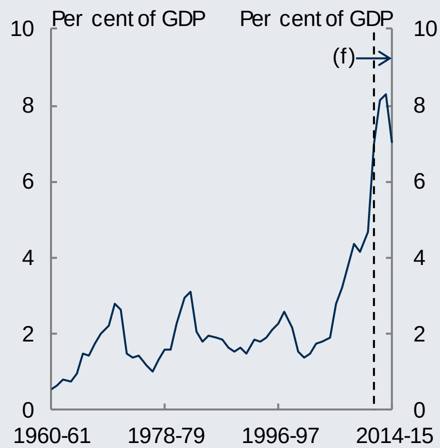


Note: Estimates adjusted using five year average realisation ratios for the mining sector.
Source: ABS cat. no. 5625.0 and Treasury.

The ramp-up in mining capital expenditure is driving investment in the resources sector towards new highs. In 2012, resources companies invested over $100 billion on buildings and structures, equipment and exploration.

As these facilities move towards their production phase, the rate of construction will slow significantly. Resources investment is expected to peak sometime in 2013-14, at an all-time high of 8 per cent of GDP, up from only 2 per cent of GDP a decade before (Chart B).

Chart B: Mining investment, share of nominal GDP



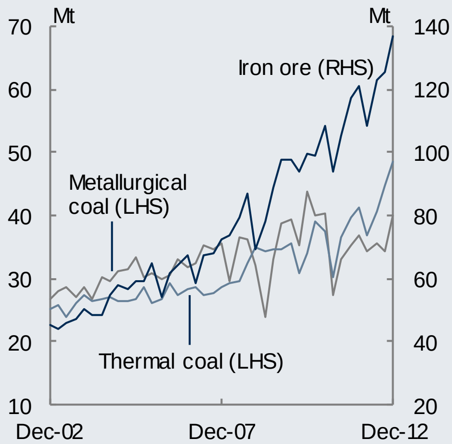
Source: ABS cat. no. 5204.0 and Treasury.

The exact timing of the peak in investment is uncertain, owing to a combination of factors including the rate of progress on existing projects, the extent and nature of any cost overruns and the outcome of final investment decisions on projects under consideration.

Box 3: Resources investment and exports (continued)

The export phase of the boom has been underway since the late 2000s. Coal and iron ore exports started to pick up considerably in late 2009, driving growth in non-rural commodity exports of 9 per cent in 2009-10. Although strong export growth was interrupted by the severe flooding in 2010-11, non-rural commodity export volumes have since recovered. In 2011-12, iron ore exports rose 16 per cent while coal exports rose 4 per cent (Chart C).

Chart C: Iron ore and coal volumes (orig.)

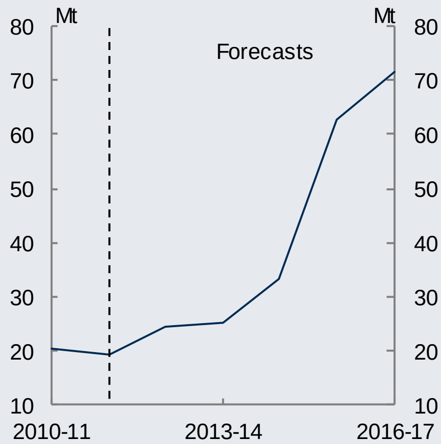


Source: Based on ABS data.

Iron ore exports are forecast to increase by more than 40 per cent over the next three years, with total volumes reaching double their 2008-09 level in 2014-15. Coal export volumes are also expected to increase significantly, growing by almost 35 per cent over the same period to reach volumes around 60 per cent higher than in 2008-09.

While new LNG facilities will start to enter into production from around 2014-15, the majority of the increase in LNG export capacity falls outside of the forecast period. The Bureau of Resources and Energy Economics (BREE) is forecasting LNG exports to grow by 117 per cent between 2014-15 and 2016-17 (Chart D) with Australia expected to become the world's largest LNG exporter by the end of the decade.

Chart D: LNG exports



Source: BREE.

As the peak of the investment phase passes, the resources sector will transition towards a record expansion in production and exports. Other resource rich countries have also seen a response to strong demand for commodities in their resources sectors. Together with increased export capacity from Australia, these increases in global supply are expected to result in a gradual overall decline in commodity prices over the medium-term. However, the impact of lower export prices on Australia's trade balance will be offset by the combination of higher export volumes and less demand for imported capital to build resources projects.

Public final demand

Public final demand is expected to remain flat in 2013-14, before growing by a subdued ½ of a per cent in 2014-15, consistent with continuing fiscal consolidation across all levels of government.

Exports and imports

Over the next two years, record levels of resources investment will generate considerable new production and export capacity in the resources sector. As this capacity comes on line, non-rural commodity exports are forecast to increase strongly. Between 2011-12 and 2014-15, non-rural commodity exports are expected to grow by over 30 per cent. This will underpin strong growth in total exports, which are forecast to increase by 6½ per cent in 2013-14 and 7 per cent in 2014-15.

Iron ore export volumes are expected to grow strongly, with iron ore mining projects in the Pilbara region increasingly adding to production as expansions come online. Iron ore exports are expected to grow by 13 per cent in 2013-14 and 12 per cent in 2014-15. Coal exports are also expected to grow strongly, by 12 per cent in 2013-14 and 10 per cent in 2014-15. Towards the end of the forecast period, LNG exports are forecast to start growing rapidly as the first of the large export projects in Queensland and Western Australia enter production. Exports of LNG are forecast to grow by 31 per cent in 2014-15. Overall, non-rural commodity exports are forecast to grow by 9 per cent in 2013-14 and 9½ per cent in 2014-15.

Rural exports are forecast to be little changed in 2012-13. Drawdowns on inventories accumulated in 2011-12 are expected to support rural export volumes despite slightly weaker production owing to less favourable conditions for the recent winter crop. Exports are expected to remain around their 2012-13 levels in the following two years, with a return to average seasonal conditions in 2013-14 allowing stronger production volumes but reducing stock drawdowns.

Notwithstanding the high Australian dollar, non-commodity goods exports are expected to grow modestly over the next two years, reflecting robust economic growth in Australia's major trading partners. Non-commodity goods exports are expected to grow by 4½ per cent in 2013-14 and 4 per cent in 2014-15.

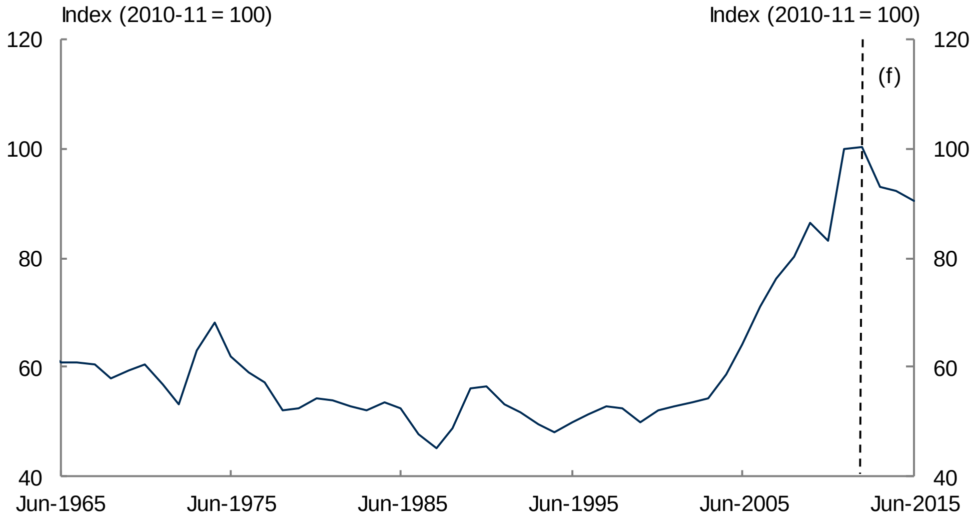
Services exports are expected to return to growth this year after an extended period of weakness following the global financial crisis. Recent strength in overseas arrivals suggests a more positive outlook for inbound tourism. Short-term visitor arrivals returned to growth in 2012 and are now at record levels, with over six million visitors entering Australia over the past year. The international student sector has also shown signs of a recovery following a significant contraction over the past three years. Services exports are forecast to grow by 1½ per cent in 2013-14 and 2½ per cent in 2014-15.

Imports are forecast to remain at elevated levels over the next two years, consistent with the expected continued strength in import-intensive investment in the resources sector. The resources investment boom is expected to continue driving significant demand for imports in 2013-14, particularly around LNG construction. Away from the resources sector, imports of consumption goods are expected to grow solidly, as higher consumer confidence takes hold and the high Australian dollar continues to hold down the price of imported goods. Total import volumes are forecast to grow by 6 per cent in 2013-14 and 3 per cent in 2014-15.

Terms of trade

The terms of trade have fallen 17 per cent from their peak in September 2011. While the continued expansion in global supply is expected to lead to further falls in iron ore prices, these are expected to be more gradual than previously anticipated, with the average grade of iron ore exported from Australia declining less rapidly than previously forecast. Treasury forecasts of the prices of key commodity exports are outlined in Box 4. The terms of trade are expected to decline ¾ of a per cent in 2013-14 and 1¾ per cent in 2014-15 (Chart 9).

Chart 9: Terms of trade



Source: ABS cat. no. 5206.0 and Treasury.

Box 4: Bulk commodity prices

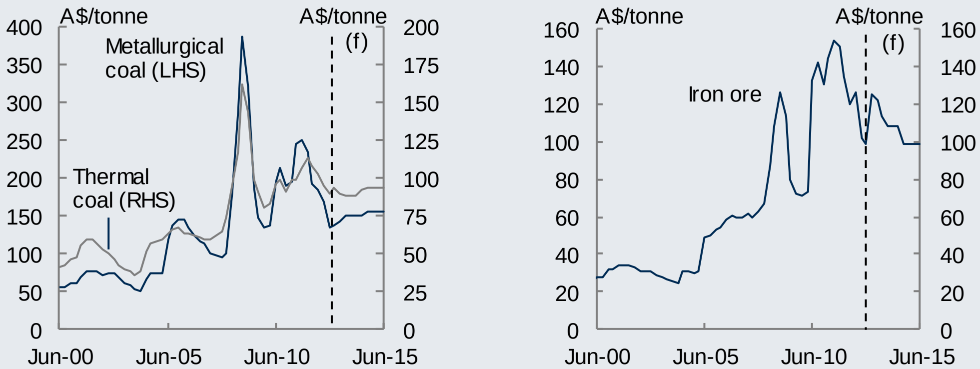
Treasury forecasts commodity prices by drawing on consensus forecasts, BREE forecasts, commodity price futures, Treasury liaison and analysis. Treasury's forecasts of iron ore, metallurgical coal and thermal coal export prices are consistent with private sector forecasts (Chart A).[1]

Prices for Australia's key non-rural commodity exports continue to be highly volatile, with falls in 2012 weighing heavily on the terms of trade, nominal GDP and tax receipts. The volatility has continued into 2013 with recent declines in the price of some commodities, including gold and copper. If these falls are sustained, they will place further downward pressure on the terms of trade.

Iron ore is a key input to steel production and its price reflects global demand for steel. Seasonally high Chinese steel demand and ore stocking by Chinese steel mills are expected to continue to support iron ore prices during the first half of 2013. Nevertheless, the substantial increase in iron ore supply (particularly from Australia) and high global steel inventories are expected to lead to a decline in prices in the second half of 2013. Further increases in supply are expected to place downward pressure on prices over the forecast period.

The price of metallurgical coal has diverged from the iron ore price in recent quarters, despite it also being a key input to steel production. Prices of both metallurgical coal and thermal coal (which is used in electricity generation) appear to more widely reflect marginal producer costs, and are expected to remain around their current levels, with increasing production costs expected to lead to only a modest increase in prices over the forecast period.

Chart A: Bulk non-rural commodity prices
(average unit export price)



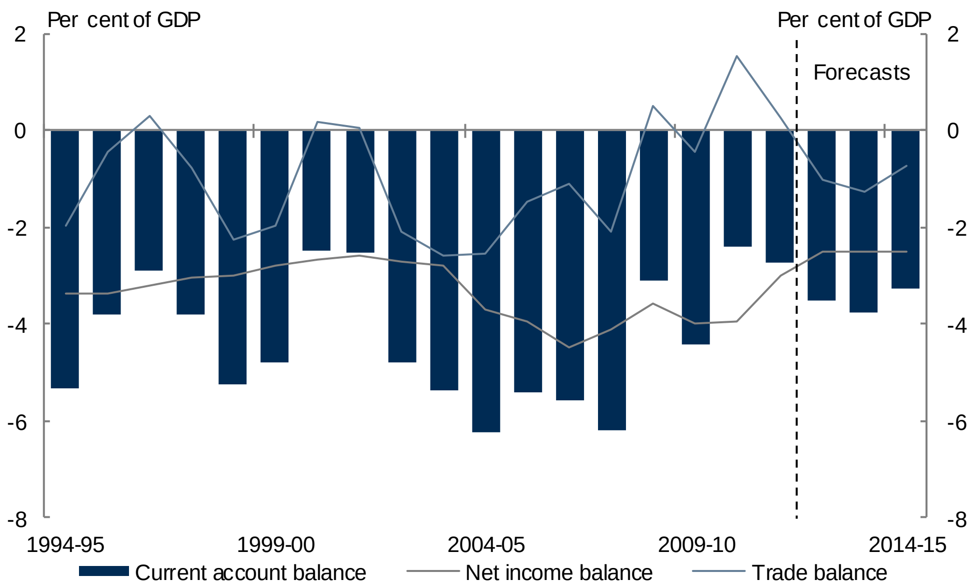
Source: Based on ABS data and Treasury. Export prices differ from the more-widely quoted spot prices. Export prices reflect the actual price foreigners pay for our exports and reflect the quality of the resource being provided (such as the iron ore content), long-term contracts, and exchange rate movements.

1 Previously, Treasury could not publish forecasts which relied more directly on information provided by individual firms on an in-confidence basis.

Current account balance

The current account deficit is expected to widen slightly from 3½ per cent of GDP in 2012-13 to 3¾ per cent of GDP in 2013-14, before narrowing to 3¼ per cent of GDP in 2014-15 (Chart 10)(Box 5). This profile mirrors the trade deficit, which is expected to widen from 1 per cent of GDP in 2012-13 to 1¼ per cent of GDP in 2013-14, before narrowing to ¾ of a per cent of GDP in 2014-15. The narrower trade deficit reflects the outlook for sustained strong export growth and weaker import growth. The net income deficit is forecast to remain at 2½ per cent of GDP over the forecast period. Data for the past year suggest that the net income deficit has been widening more slowly than had been expected, and this has been reflected in an adjustment to the forecast.

Chart 10: Current account balance



Source: ABS cat. no. 5302.0 and Treasury.

Box 5: Australia's increasingly robust external funding position

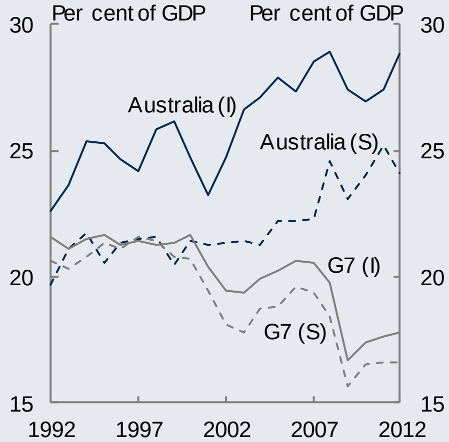
Australia has been a net importer of foreign capital for more than 200 years. Foreign capital has financed expansions in the productive base of the economy that have enabled us to sustain higher rates of economic growth and faster improvements in living standards. That Australia has been able to sustain this gradual accumulation of net foreign liabilities reflects both our attractiveness as an investment destination and the confidence foreign investors place in our ability to meet our external obligations.

Nevertheless, dependence on foreign sources of capital does entail some risk. The global financial crisis has shown that severe dislocations in external funding markets can, even if only for a short period, impede the ability of even the most creditworthy of borrowers to obtain funding. This box surveys the drivers of recent and likely future developments in our current account, and the robustness of our external funding position. The conclusion is that, as the private sector's call on international funding has fallen, so too has the risk profile of our foreign liabilities.

The current account balance (CAB) is typically expressed as the sum of the balance on our trade in goods and services (the trade balance) and the net income balance, which is the net flow of payments (primarily interest and profits) on our stock of net foreign liabilities. Australia has historically run a deficit on both the trade and net income balance, although there have been periods when the trade balance has been positive.

The current account deficit (CAD) also represents the extent to which Australia draws on foreign saving to fund that portion of national investment that is not funded by domestic national saving. It is important to recognise that our CAD is not a reflection of low national saving. Indeed, Australia's national saving rate has risen steadily since the early 2000s and is high relative to the major advanced economies (Chart A). Rather, it reflects even higher levels of investment which have been directed at expanding the economy's productive capacity, most recently in the resources sector.

Chart A: Gross saving and investment



Source: ABS cat. no. 5206.0 and IMF.

The payoff from recent investments in the resources sector has underpinned a substantial improvement in the trade balance over recent years. This improvement in the trade balance

Box 5: Australia's increasingly robust external funding position (continued)

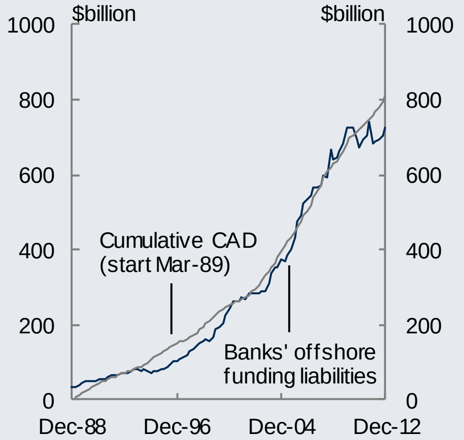
has seen the CAD narrow to around 3 per cent of GDP, after averaging around 6 per cent of GDP in the years leading up to the global financial crisis. This improvement is expected to be sustained over the forecast period.

As our demand for foreign capital has fallen, there has also been a material shift in both the form and sectoral composition of those capital inflows. Prior to the global financial crisis, the dominant form of net capital inflow was portfolio debt — mostly debt accumulated by the household and non-financial corporate sectors, intermediated via the banking system.

However, an extended period of balance sheet consolidation has seen the household sector go from being a significant net borrower in the years before the crisis to a significant net lender. While still a net borrower in aggregate, the non-financial corporate sector has also increased its use of internally-generated funding (retained earnings), particularly in the resources sector. Since a large proportion of the resources sector is foreign owned, much of this internally-generated funding enters as an inflow on the financial account of the balance of payments. This form of financing, and direct equity investment more generally, is typically regarded as a more stable funding source than portfolio investment.

As a consequence of this reduced demand for intermediated finance, our banks have generally been net *repayers* of their total offshore liabilities since mid-2010. Indeed, whereas the evolution of our accumulated CADs has historically mirrored that of banks' offshore liabilities, recent years have seen a marked divergence (Chart B).

Chart B: Bank intermediation of CAD

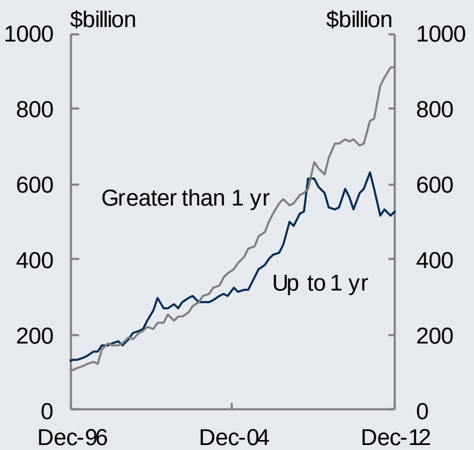


Note: Offshore funding liabilities are total offshore liabilities less offshore derivatives liabilities.
Source: ABS cat. no. 5232.0 and 5302.0.

Since the crisis, Australian banks have also reduced their exposure to roll-over risk by lengthening the average term of their wholesale debt liabilities, which has seen a substantial lengthening in the maturity profile of our overall foreign debt (Chart C).

Chart C: Foreign debt liabilities

Residual maturity basis



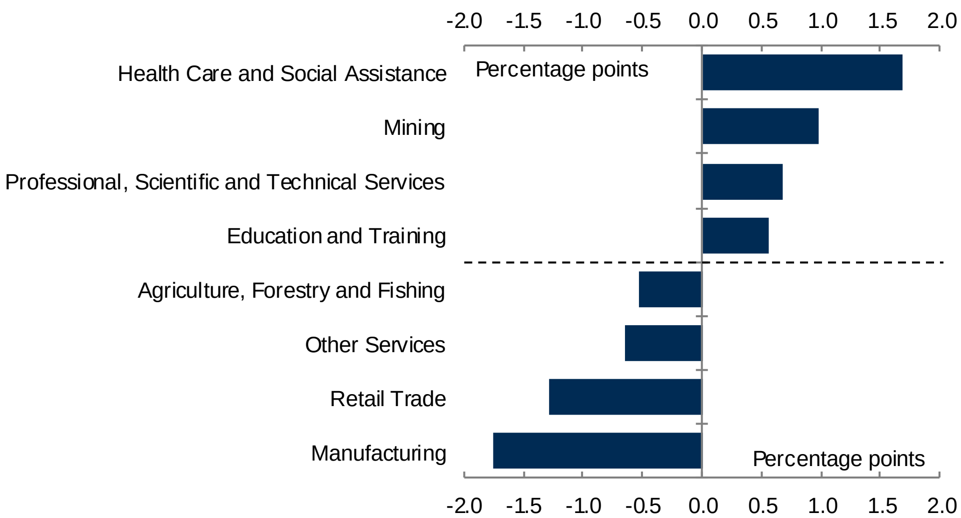
Source: ABS cat. no. 5302.0.

Labour market

Total employment has grown by around 165,000 people over the past year, and around 950,000 people since the end of 2007. As a result of this strong jobs creation, Australia's unemployment rate of 5.5 per cent is significantly below that of the United States and less than half that of the euro area, and remains one of the lowest in the developed world.

Australia's strong employment growth over the past five years has been supported by the resources-related sectors and some services sectors such as health care and education (Chart 11), although demand for labour in the mining sector has eased from its 2012 peak. In contrast, subdued global conditions, the sustained high Australian dollar and cautious behaviour by consumers have weighed on hiring decisions in other parts of the economy such as manufacturing and retail trade. Firms have also reacted to uneven economic conditions by reducing the average number of hours employees work each week, which has helped alleviate the impact of uneven demand on employment.

Chart 11: Change in employment share — November 2007 to February 2013



Note: This chart shows the four industry categories with the largest increase in employment share since November 2007, and the four categories with the largest decrease over the same period.
Source: ABS cat. no. 6291.0.55.003 and Treasury.

Employment growth is expected to remain moderate, at 1¼ per cent through the year to the June quarter 2014, with the persistently high dollar producing challenging conditions in some labour intensive sectors of the economy, such as manufacturing and tourism. Employment growth is then expected to strengthen to 1½ per cent through the year to the June quarter 2015 as investment and growth pick up in the non-resources sectors of the economy. Over 350,000 jobs are expected to be created over the forecast period.

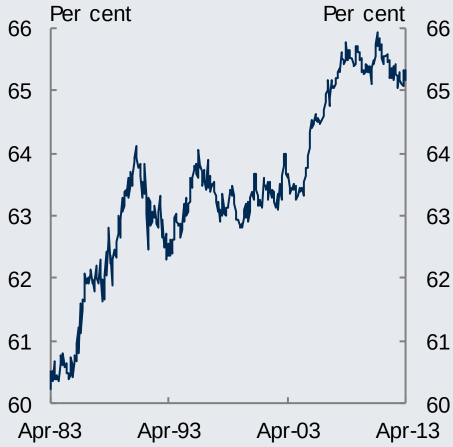
The participation rate has declined since November 2010, falling around ¾ of a percentage point. This is a reversal of the upward trend seen over much of the 2000s (Box 6), and largely reflects demographic drag as a greater number of baby boomers reach retirement. Despite these falls, the aggregate participation rate continues to be high in historical terms, and is expected to remain at around 65 per cent over the next two years.

With the resources sector transitioning to the less labour intensive production phase and the high dollar still weighing on many sectors, the unemployment rate is expected to drift up slightly to 5¾ per cent by the June quarter 2014, and stabilise there through 2014-15. Despite this slight increase, Australia's unemployment rate is expected to remain one of the lowest in the developed world.

Box 6: The participation rate

The participation rate (or proportion of people aged 15 years and over who are either working or willing and available to work) rose over much of the 2000s. However, since its peak of 65.9 per cent in late 2010, it has gradually declined (Chart A), reflecting a range of demographic factors, social trends and the impact of the economic cycle.

Chart A: The participation rate



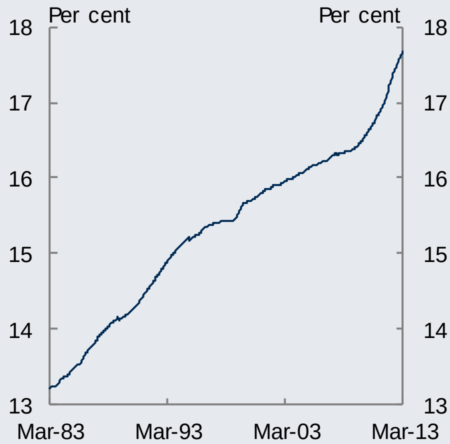
Source: ABS cat. no. 6202.0.

The most significant factor weighing on participation is Australia's ageing population, resulting in fewer potential workers as a share of the total population. The *2010 Intergenerational Report* projects that the participation rate will fall from its current level of around 65 per cent to less than 61 per cent by 2049-50. This is the equivalent of around 900,000 people leaving the labour force.

This demographic change is already having an effect, with the changing age distribution accounting for around 80 per cent of the decline in the participation rate since 2010.

In particular, the increase in those aged 65 and over as a share of the working-age population (aged 15 and over) has accelerated in recent years (Chart B), resulting in a higher proportion of workers reaching retirement age.

Chart B: 65+ share of population aged 15 or over



Source: ABS cat. no. 6291.0.55.001.

However, a range of longer-term factors have helped boost participation, offsetting the impact of the ageing population for much of the 2000s.

Factors such as improved health outcomes and a shift away from jobs involving manual labour have allowed people to delay retirement and prolong their working lives. As a result, the participation rate for those aged 55 and over has trended upwards. However, as participation among older people remains well below that of other cohorts, this has only partially offset the impact of population ageing.

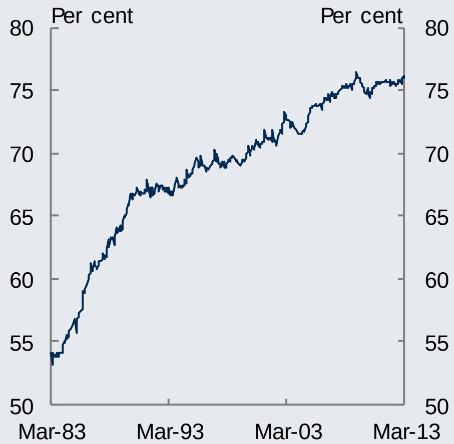
Increased education and changing social attitudes have resulted in people

Box 6: The participation rate (continued)

having greater opportunities and attachment to the labour market. This continued to boost participation during the 2000s, particularly among women (Chart C).

This longer-term shift has been facilitated by the increased availability of flexible working arrangements and access to childcare, allowing females with young children to work part time when in previous decades they may not have participated in the workforce.

Chart C: Participation rate — females aged 25-54



Source: ABS cat. no. 6291.0.55.001 and Treasury.

The terms of trade boom and strong performance of the Australian economy also attracted potential workers into the labour market over much of the 2000s, with participation rates in the resources states of Western Australia and Queensland increasing significantly.

However, employment growth has been uneven since the global financial crisis as a result of weak global conditions, the sustained high Australian dollar and cautious consumer behaviour.

It is likely that potential workers in some industries have become discouraged and left the labour force, contributing to the decline in the participation rate since 2010. This may have affected younger people, who typically have less attachment to the labour market, are more likely to be engaged in study, and gravitate towards those sectors that have been disproportionately affected by the crisis and weak global conditions. Many young people have likely also taken advantage of increased opportunities to pursue tertiary study.

On the other hand, the crisis may have boosted participation by older workers, as they delayed retirement in order to rebuild wealth and maintain a desired standard of living. This effect could be waning as asset and financial markets improve, with the participation rate of older workers being broadly flat over the past year.

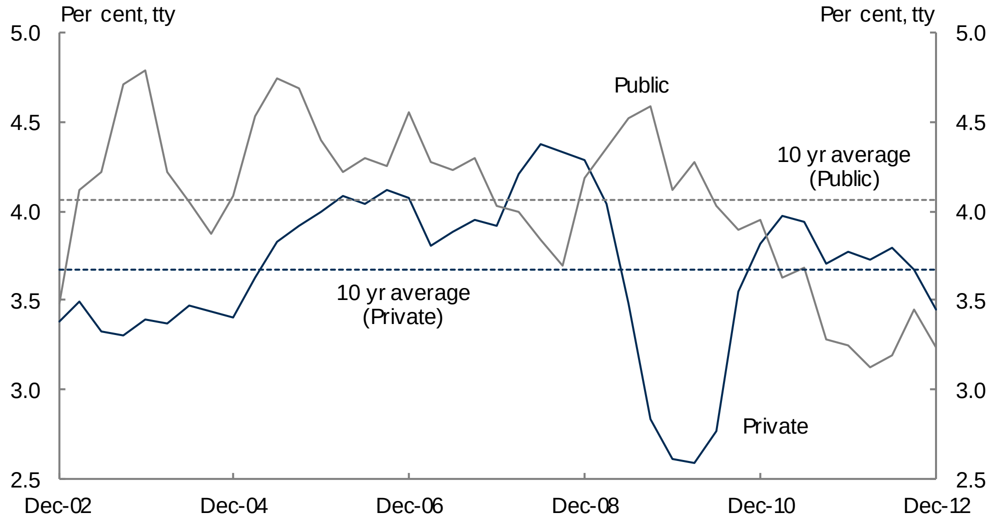
Over the forecast period, there may be some upward pressure on participation as the non-resources sectors take over as the engine of economic growth and employment, encouraging potential jobseekers to look for work and helping offset downward pressure from demographic change. In the longer-term, the participation rate will continue to be driven lower by the ageing of the population. However, Government policies in areas such as education, incentives to work, and childcare affordability will help support participation in the workforce.

Wages

Wage growth moderated during 2012. Growth in private sector wages was slightly below its 10-year average during the second half of the year, and public sector wage growth remained weak, consistent with fiscal consolidation at all levels of government (Chart 12). Wage growth is expected to remain contained over the next two years in line with the outlook for moderate employment growth and inflation within the lower half of the Reserve Bank's target band.

The Wage Price Index is forecast to grow 3½ per cent through the year to the June quarters of 2014 and 2015.

Chart 12: Growth in Wage Price Index



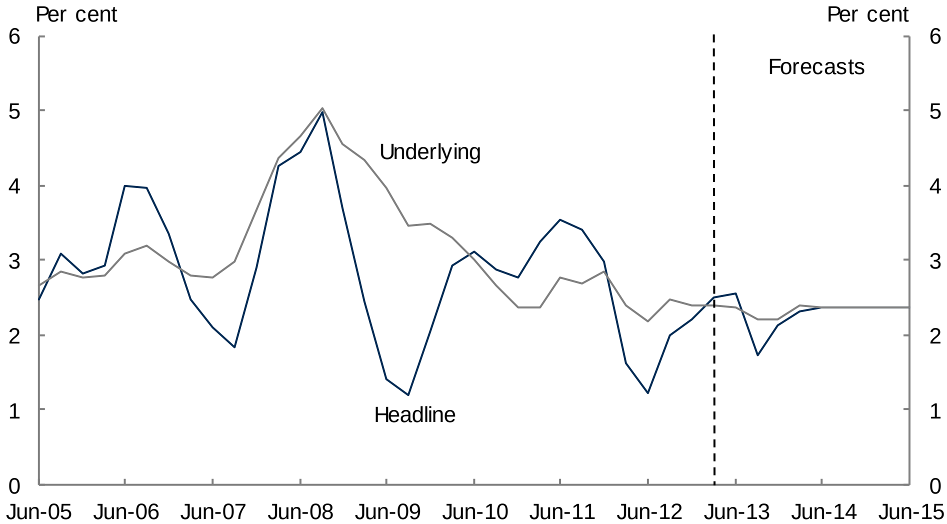
Source: ABS cat. no. 6345.0 and Treasury.

Consumer prices

Consumer price inflation was subdued in 2012, as the high level of the exchange rate held down prices of imported goods and, together with uneven domestic demand, increased competitive pressures on firms across the economy to pass on low prices. Prices for tradable goods and services have been especially weak, falling by 0.2 per cent over the past year, while prices of non-tradables grew by 4.2 per cent. The weakness in tradables inflation highlights the significant effect the persistently high Australian dollar is having on prices in the most competitive parts of the economy.

The pressures from the high Australian dollar are expected to continue over the forecast period, with subdued wage growth and continuing productivity growth also expected to contain inflation. Headline and underlying inflation are expected to ease to 2¼ per cent through the year to the June quarters of 2014 and 2015 (Chart 13).

Chart 13: Headline and underlying inflation



Note: The underlying inflation measure is the average of the quarterly growth rates of the trimmed mean and weighted median.
Source: ABS cat. no. 6401.0 and Treasury.

Incomes

The outlook for nominal GDP growth remains subdued following unusual weakness in 2012-13. Nominal GDP is forecast to grow by 5 per cent in both 2013-14 and 2014-15, below its 20-year average of 6½ per cent. The outlook reflects the expected decline in the terms of trade and subdued domestic price growth over the forecast period (Chart 14). Nominal GDP is distributed throughout the economy mainly as compensation of employees, gross operating surplus and gross mixed income.

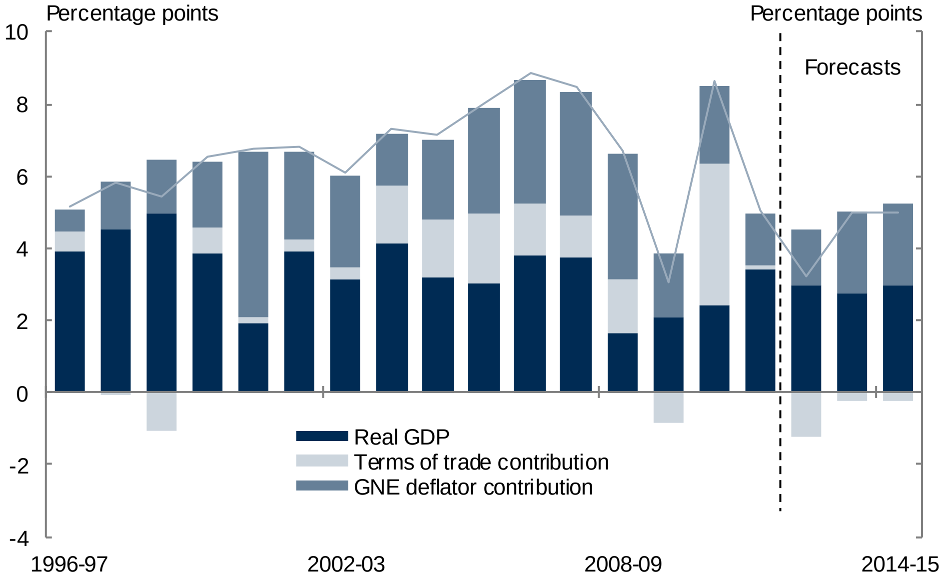
Gross operating surplus (the National Accounts measure of profit) is forecast to decline by ¾ of a per cent in 2012-13 before recovering to grow by 4¾ per cent in 2013-14 and 5½ per cent in 2014-15, remaining below its 20-year average growth rate of around 7 per cent. The recent weakness in profit growth is indicative of the widespread and significant effect of the high Australian dollar (Box 7). The unusual combination of a high Australian dollar and falling commodity prices has led to sharp declines in resources profits. At the same time, the persistently high Australian dollar is having an acute and enduring effect on profits in the non-resources parts of the economy as firms squeeze margins to remain competitive both in export markets and domestically.

Compensation of employees (primarily wages) is forecast to grow by 5¾ per cent in 2013-14 and 5 per cent in 2014-15, reflecting the slightly below-trend outlook for wage and employment growth over the period.

The forecast decline in commodity prices and competitive pressures from the sustained high dollar are expected to result in a decline in the profit share (and a corresponding rise in the wage share) of income over the forecast period.

Gross mixed income, which includes the wages and profits of farms and other unincorporated enterprises, is forecast to grow by 3¼ per cent in 2013-14 and 2¾ per cent in 2014-15.

Chart 14: Components of nominal GDP growth



Note: The small discrepancy between nominal GDP and the sum of its components is due to interactions which cannot be attributed to individual components. Totals may not add due to rounding.
Source: ABS cat. no. 5206.0 and Treasury.

Box 7: The impact of the persistently high Australian dollar

Movements in Australia's exchange rate and terms of trade are typically closely related and it is unusual for the Australian dollar to remain broadly unchanged while the terms of trade fall. However, while the terms of trade have fallen sharply since their peak in late 2011, the Australian dollar has remained high. The persistently high dollar is creating acute and enduring challenges in many sectors and is weighing heavily on profitability and prices across the economy.

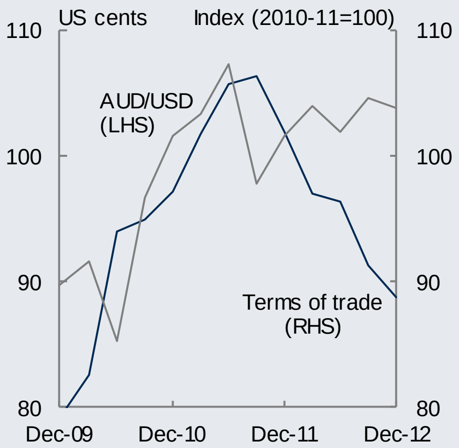
The floating Australian dollar promotes macroeconomic stability by encouraging the reallocation of labour and capital to parts of the economy that provide the best return. This has occurred most recently by reducing returns in non-resources sectors of the economy to meet the record demands in the resources sector. While this has presented challenges for some sectors, without a floating exchange rate, this adjustment would have occurred through higher domestic inflation.

The Australian dollar appreciated strongly in response to the terms of trade boom, rising from less than US$0.50 in 2001 to a peak of over US$1.10 in the middle of 2011, and appreciating around 50 per cent in the past four years alone. Yet, while the terms of trade have fallen sharply in the past two years, with non-rural bulk commodity prices now around 35 per cent below their peak, the Australian dollar has remained relatively stable and high (Chart A).

More recently, the trade weighted index of the Australian dollar has risen to around 30-year highs, driven by a 20 per cent appreciation against the Japanese yen over the past six months.

The strength of the Australian dollar reflects the fundamental strength of the Australian economy. With low unemployment, contained inflation and low levels of public debt, Australia is one of only eight countries with a AAA credit rating with a stable outlook from all three ratings agencies. These strong fundamentals and the relative attractiveness of yields on offer have increased the demand for Australian dollar denominated assets.

Chart A: Terms of trade and AUD

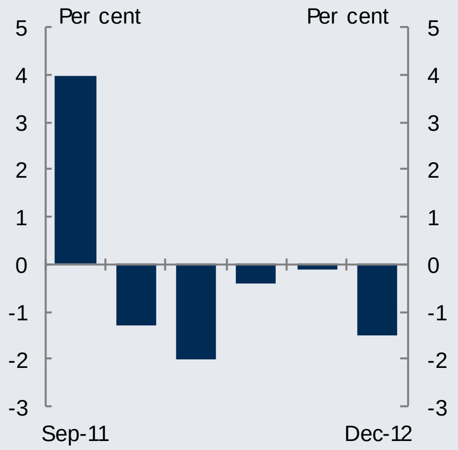


Source: ABS cat. no. 5302.0 and 5206.0.

While the high Australian dollar reflects our strong fundamentals, it has also contributed to uneven conditions domestically and weighed heavily on company profits across the economy. Total gross operating surplus has fallen for five consecutive quarters (Chart B) — the first time this has occurred in the history of the quarterly National Accounts.

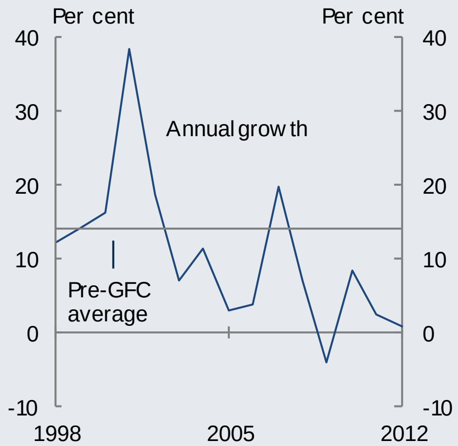
Box 7: The impact of the persistently high Australian dollar (continued)

Chart B: Gross operating surplus (growth)



Source: ABS cat. no. 5206.0.

Chart C: Non-mining gross operating profit (growth)



Source: ABS cat. no. 5676.0.

The record decline in profits partly reflects the decline in commodity prices, with mining sector profit falling 20 per cent in 2012. However, away from the mining sector, profit growth has also been very weak as firms continue to adjust to the high Australian dollar. Non-mining profit rose 0.9 per cent in 2012, well below the annual average increase of 14.1 per cent in the ten years prior to the global financial crisis (Chart C).

Treasury's business liaison program suggests that subdued profits in the non-resources sectors reflects competitive pressures from the sustained high Australian dollar, with firms absorbing costs by squeezing profit margins at the same time as they pass on lower import prices to consumers. Business survey data support the information from liaison, with margins particularly weak in manufacturing, wholesale, retail and construction.

With profit representing around 40 per cent of nominal GDP, the weakness in profit growth has led to an unprecedented period of relative weakness in nominal GDP. Through-the-year nominal GDP growth was below real GDP growth for the third consecutive quarter in December — its longest period of relative weakness on record.

While the dollar remains high, it will continue to place downward pressure on profits. Firms are innovating and adapting to manage this pressure, but the persistent strength in the Australian dollar is making the economic transition to non-resources drivers of growth more challenging, particularly in the trade-exposed sectors.

Medium-term projections

The fiscal aggregates in the Budget are underpinned by a set of forward estimates consisting of short-term economic forecasts and projections based on medium-term assumptions (Box 8).

Real GDP is projected to grow at its trend rate of around 3 per cent over the two projection years of the medium term based on analysis of underlying trends in employment and productivity (Chart 15). Trend growth in real GDP is projected to slow early next decade as the participation rate declines in line with Australia's ageing population profile.

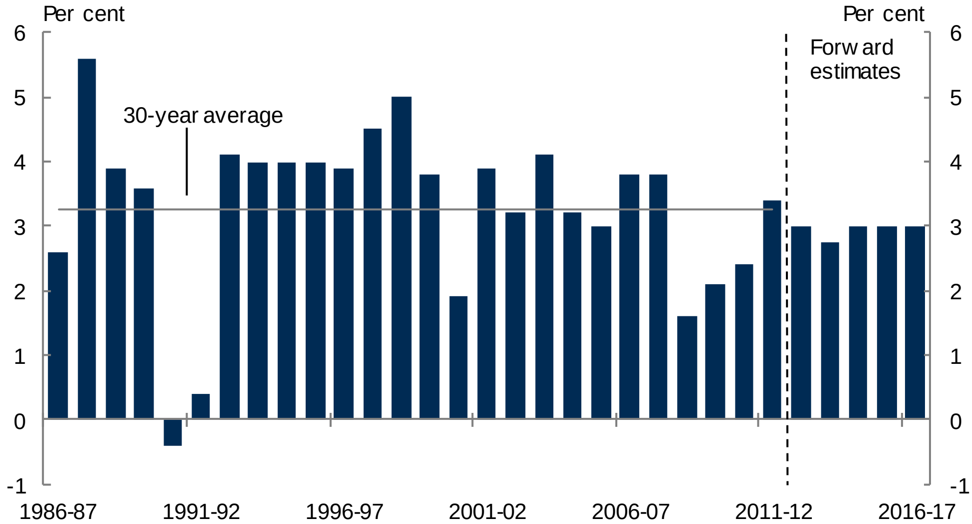
The unemployment rate is projected to be 5 per cent over the medium term, consistent with Treasury's estimate of the non-accelerating inflation rate of unemployment. Inflation is projected to be around 2½ per cent, consistent with the Reserve Bank's medium-term target band.

After 2014-15, the terms of trade are projected to decline by a total of 20 per cent over a 15-year period, settling around their 2005-06 level.

The exchange rate is assumed to remain around its recent average level during the forecast period. Over the projection period, the exchange rate is assumed to move in line with the long-term historical relationship between the terms of trade and the real effective exchange rate. The terms of trade projections imply a fall in the real exchange rate of 0.9 per cent per annum over the projection period.

The carbon price parameters underpinning the Government's Clean Energy Future Plan have been revised in the 2013-14 Budget. The revised methodology ensures that the carbon price parameters reflect both short-term market dynamics and longer-term fundamentals. Further detail on the methodology used to estimate the carbon price is outlined in Box 9.

Chart 15: Real GDP growth over the forward estimates period



Source: ABS cat. no. 5206.0 and Treasury.

Box 8: The transition in the resources sector and the projection methodology

Treasury prepares detailed forecasts of the economy for the budget year and the subsequent year. Beyond this, there is less information on which to prepare detailed forecasts, so Treasury prepares projections of high level economic aggregates to underpin budget estimates of receipts and payments. The projection methodology is based on medium-term assumptions of growth consistent with historical experience or longer-term factors, such as demographic change.

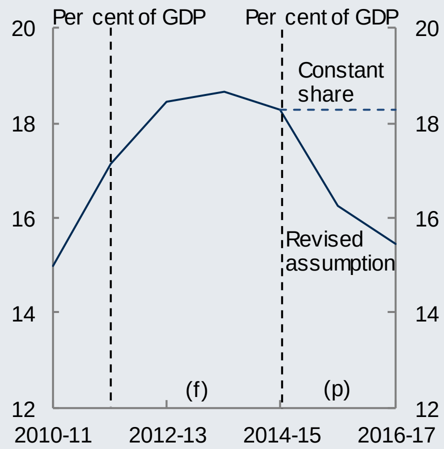
As a result of the current investment boom in the resources sector, private business investment has increased from its historical average share of around 14-15 per cent of GDP, and is expected to peak at around 19 per cent of GDP in 2013-14 (Chart A). Normally, the approach for projecting business investment in the projection years would be to assume that this high investment share of GDP is maintained in 2015-16 and 2016-17. There is usually little information on the likely path of business investment beyond the forecast period and this assumption would normally provide a plausible path.

However, at present, the scale of investment in resources projects and the lengthy timeframes for their construction mean that some information on business investment and exports beyond the forecast period is available. Based on company reports, analysis of the resources investment pipeline, Treasury's business liaison and historical investment to capital stock ratios, resources investment is expected to fall significantly as a share of GDP in 2015-16 and 2016-17.

To account for this expected decline, new business investment is projected to fall to around its historical share of GDP by 2016-17. Associated imports growth is projected to decline at the same rate as resources investment. Non-rural commodity exports are projected to grow at a rate sufficient to maintain the standard projection assumption of 3 per cent growth in real GDP. This is consistent with the continuation of the production phase of the resources boom and is comparable to forecasts produced by BREE.

The revised projection methodology has been introduced in this Budget for a similar reason to the step-down assumption for terms of trade projections, first introduced in the 2005-06 Budget.

Chart A: New business investment as a share of nominal GDP



Note: Adjusted for second-hand asset sales between the public sector and the private sector.
Source: ABS cat. no. 5206.0 and Treasury.

Box 9: Updated carbon price estimates

The Carbon Pricing Mechanism commenced operation on 1 July 2012, with a fixed price period of three years. The fixed price arrangements for emissions liabilities remain unchanged, with the price set at $23.00 in 2012-13, $24.15 in 2013-14 and $25.40 in 2014-15.

The 2013-14 Budget estimates incorporate a revised carbon price methodology for when the price links to the European Union Emissions Trading Scheme (EU-ETS) in 2015-16, and for the advance auction of permits related to the floating price period. The methodology incorporates market information for the advance auctions of permits in 2013-14 and 2014-15.

These advance auctions in the Budget forecast years are based upon average EU-ETS market futures prices for 2013-14 and 2014-15. However, carbon prices in the Budget projection years are not forecasts of carbon prices. As outlined in the 2012-13 Budget, projection year parameters generally rely on longer-term factors.

Projections for carbon prices for emissions liabilities for 2015-16 and 2016-17 incorporate the straightforward approach of a linear transition from market prices in 2014-15 to the modelled price of $38 in 2019-20 from the Strong growth, low pollution (SGLP) modelling report. The price is now projected to be $12.10 in 2015-16 and $18.60 in 2016-17.

The longer-term modelled carbon prices from SGLP reflect the price levels required to meet long-term global environmental goals as well as the international commitment pledges for 2020, and these have not changed.

The near-term outlook for prices in the EU-ETS remains unclear given the profound economic weakness in Europe and uncertainty in relation to the timing of any regulatory changes that may be agreed with respect to the scheme.

The revised methodology ensures that the carbon price parameters incorporated in the 2013-14 Budget reflect both short-term market dynamics and longer-term fundamentals.

APPENDIX A: MACROECONOMIC FORECASTING PERFORMANCE

The Government's macroeconomic forecasts are prepared using a range of modelling techniques, including structural macroeconometric models and equations, spreadsheet analyses and accounting frameworks. These are supplemented by survey data, business liaison, expert opinion and judgement.

In 2012, the Secretary to the Treasury commissioned an independently-overseen Review of Treasury Macroeconomic and Revenue Forecasting performance.[2]

The Review concluded that the forecasts draw upon 'the full range of information and modelling techniques used by comparable agencies overseas', and place broadly appropriate weight on the various tools available to forecasters. The Review made 11 recommendations on how to improve forecasting performance, all of which are currently being implemented. This appendix responds to Recommendation 5:

> *Treasury should include in the Budget papers a high level review of the economic forecast errors (nominal and real GDP) for the previous financial year, as a complement to the existing discussion of revenue forecasting errors.*

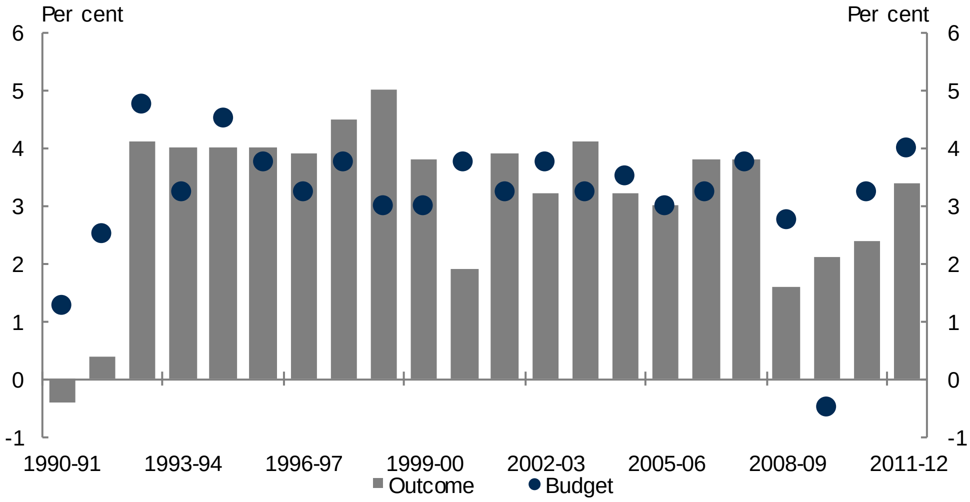
Macroeconomic forecasts are always subject to a margin of error. Charts 16 and 17 show the magnitude of the Budget year forecast error for real and nominal GDP growth over the past 20 years. The independent review concluded that, over this period, Treasury's forecasts of real GDP growth have exhibited little evidence of bias, with accuracy generally remaining within a range of ½ to 1 percentage point. However, in recent years, forecasts of real GDP growth have been less accurate, reflecting greater uncertainty about the path of real GDP during and after the global financial crisis. Treasury's experience has been broadly consistent with that of foreign counterparts and other Australian forecasters.

2011-12 Real and nominal GDP growth forecasts

Economic forecasts for 2011-12 were first published in the 2010-11 Budget. Subsequent forecasts were published in the 2010-11 MYEFO, 2011-12 Budget, 2011-12 MYEFO and 2012-13 Budget.

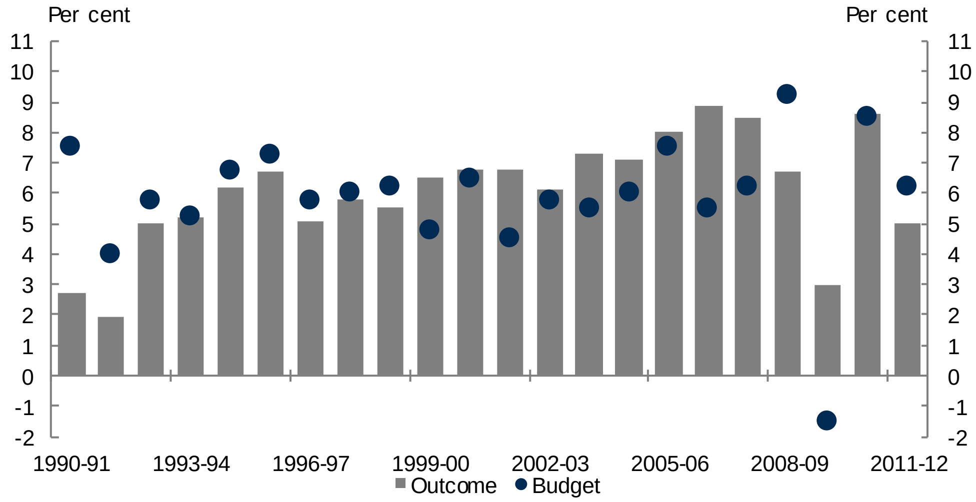
2 http://www.treasury.gov.au/~/media/Treasury/Publications%20and%20Media/Publications/2013/forecasting_review/downloads/PDF/forecasting-review.ashx.

Chart 16: Budget forecast of real GDP growth



Note: Outcome is as published in the December quarter 2012 National Accounts. Forecast is that published in the Budget for that year.
Source: ABS cat. no. 5206.0 and Treasury.

Chart 17: Budget forecast of nominal GDP growth



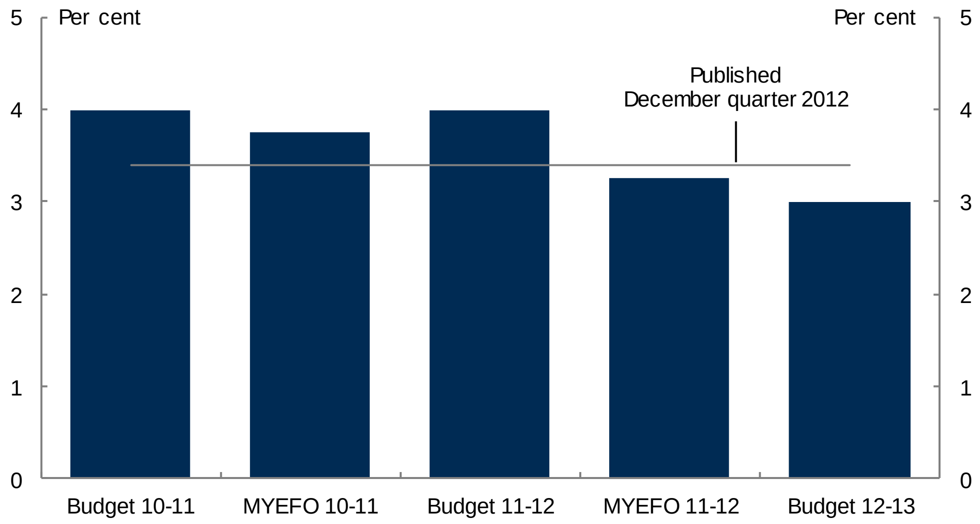
Note: Outcome is as published in the December quarter 2012 National Accounts. Forecast is that published in the Budget for that year.
Source: ABS cat. no. 5206.0 and Treasury.

In 2011-12, Australia recorded above-trend economic growth driven by surging resources sector investment and robust growth in household consumption. However, conditions in some parts of the economy were challenging, reflecting soft global conditions, the high dollar and shifting patterns of household demand. Above-trend real GDP growth in 2011-12 supported rising employment and a low unemployment rate, while underlying inflation remained contained.

Chart 18 presents the evolution of Treasury's forecasts for 2011-12 real GDP growth. The absolute percentage errors[3] for 2011-12 forecasts of real GDP growth were largest in the 2010-11 Budget (at 0.7 percentage points) and smallest in the 2010-11 MYEFO (at 0.1 percentage points). Over the past 20 years, Treasury's mean absolute percentage error for forecasts of real GDP growth in the budget year has been 0.9 percentage points at both Budget and MYEFO.

The largest absolute forecast errors occurred in forecasts of business and dwelling investment. Business investment in 2011-12 was consistently underestimated as the upswing in resources investment gathered pace, while dwelling investment in 2011-12 was consistently overestimated as supply constraints and changes to households' willingness to accumulate more debt unfolded.

Chart 18: Evolution of real GDP growth forecasts for 2011-12



Source: ABS cat. no. 5206.0 and Treasury.

In 2011-12, nominal GDP grew by 5.0 per cent as below-trend growth in domestic prices and broadly flat terms of trade weighed on growth. Weakness in domestic prices was evident in both investment and consumption deflators. Chart 19 presents the evolution of Treasury's forecasts for 2011-12 nominal GDP growth.

The absolute percentage errors in the forecasts of nominal GDP growth were largest in the 2011-12 MYEFO (at 1.3 percentage points) and smallest in the 2010-11 MYEFO (at 0.0 percentage points). Over the past 20 years, Treasury's mean absolute percentage error for forecasts of nominal GDP growth in the budget year has been 1.6 percentage points at Budget and 1.3 percentage points at MYEFO.

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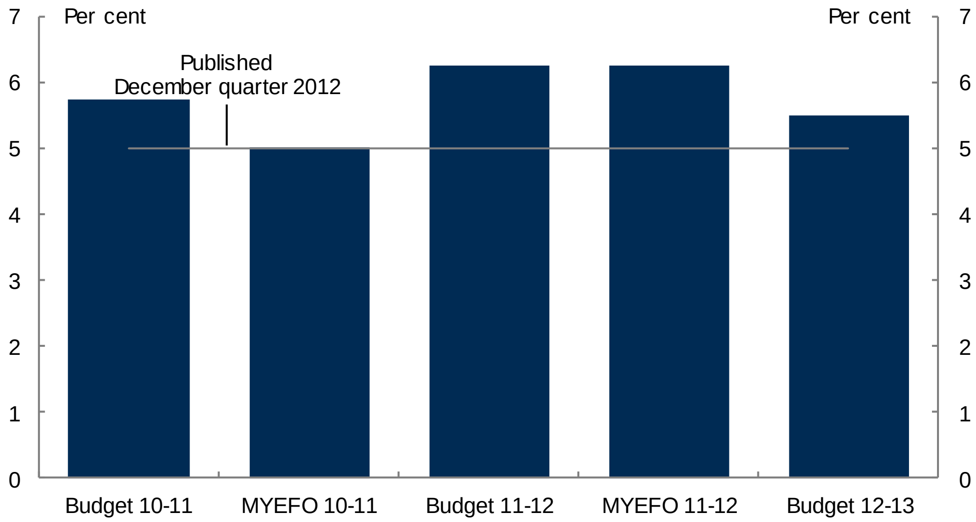
3 The absolute percentage error is an indicator of the accuracy of the forecasts, as it measures the distance between the forecast percentage growth rate and the outcome. All other things equal, a smaller number indicates a better forecasting performance.

The largest absolute forecast errors in the components of nominal GDP growth were in forecasts of the terms of trade. Smaller forecast errors were recorded in forecasts of domestic prices and real GDP growth. Forecast errors for the terms of trade were largest for export prices, reflecting the difficulty of forecasting commodity prices during periods of substantial price volatility. Domestic price growth in 2011-12 was consistently overestimated as the surge in resources investment was expected to put upward pressure on prices of investment goods, consistent with the experience prior to the global financial crisis. However, investment prices remained subdued in 2011-12, partly owing to the sustained high level of the Australian dollar.

Chart 19: Evolution of nominal GDP growth forecasts for 2011-12



Source: ABS cat. no. 5206.0 and Treasury.

STATEMENT 3: FISCAL STRATEGY AND OUTLOOK

The Government has set a pathway to return the budget to balance in 2015-16 and to surplus by 2016-17, improve the sustainability of Australia's public finances and build on Australia's record of fiscal and economic strength.

While Australia's economic fundamentals remain strong, tax receipts have been significantly affected by weaker than expected nominal GDP growth. The widespread effect of the persistently high Australian dollar on profits, combined with the impact of falling commodity prices, has resulted in lower than expected corporate profitability, and thus lower company tax receipts. A slower recovery in capital gains tax and lower than expected resource rent taxes have compounded the fall in company tax receipts over the forward estimates.

A more gradual return to surplus is appropriate given significant downgrades to revenue and the transition underway in the economy towards new sources of growth. Attempting to return to surplus too quickly by making drastic cuts in the near term would come at a significant cost to jobs and growth.

The Government continues to deliver on its commitment to the medium-term fiscal strategy by choosing a sensible pace of consolidation, which strengthens Australia's public finances, on a timetable consistent with maintaining solid growth and low unemployment.

The Government has offset all new spending decisions since the 2009-10 Budget. There is $43 billion in responsible savings in this Budget, building to a total of over $180 billion of savings in the six budgets since 2008-09. Long-term savings will continue to benefit the budget beyond the forward estimates.

The Government is continuing to build a stronger economy, a smarter nation and a fairer society through key productivity enhancing investment, such as the National Plan for School Improvement, *DisabilityCare Australia*, and critical infrastructure. These investments are fully and sustainably funded over the medium term.

This Budget provides a clear plan for moving the underlying cash balance from a deficit of $18.0 billion (1.1 per cent of GDP) in 2013-14, into balance in 2015-16 and a surplus of $6.6 billion (0.4 per cent of GDP) in 2016-17. All spending decisions across the forward estimates are fully offset by savings. Policy decisions made in this Budget will deliver the largest improvement to the forward estimates position in nearly two decades.

Australia's financial position remains amongst the strongest in the developed world. Net debt is expected to peak in 2014-15 and come down after that. Australia's net debt as a share of GDP is expected to peak at less than one-eighth of the level in the major advanced economies.

CONTENTS

STATEMENT 3: FISCAL STRATEGY AND OUTLOOK

OVERVIEW OF FISCAL POSITION

This Budget strikes the right balance between maintaining a strong fiscal position, supporting economic growth and jobs, and investing in the future.

Responsible saving decisions make room for historic investment in Australian schooling, productivity enhancing nationally significant infrastructure, and ensuring a fairer go for Australians with disability.

The Government has maintained its commitment to its medium-term fiscal strategy with a clear plan to return the budget to balance in 2015-16 and to surplus in 2016-17.

Consistent with this fiscal strategy, the Government continues to deliver fiscal outcomes that have supported Australia's solid growth and low unemployment. A well-designed stimulus package kept the Australian economy out of recession during the global financial crisis. The Government has since delivered a sensible consolidation to ensure Australia's public finances remain strong and that solid growth and low unemployment are maintained.

The Australian economy is expected to undergo two large and important transitions over the forecast period. Following the largest investment boom in Australia's history, the resources sector will transition from the investment phase toward exceptional growth in production and exports. More broadly, the Australian economy will transition to non-resource drivers of growth.

While Australia's economic fundamentals remain strong, the current unusual and persistent combination of a sustained high dollar and falling commodity prices is having a significant and widespread impact on corporate profitability, with the National Accounts measure of company profits falling for a record five consecutive quarters.

Tax receipts have been significantly affected by weaker than expected nominal GDP growth. Weaker commodity prices and the persistently high Australian dollar have hit company profits across most of the economy, including the resources sector. This has had a large impact on the level of company tax receipts expected in 2012-13 and over the forward estimates. Lower than expected capital gains tax and resource rent taxes have compounded the fall in company tax receipts. Since the 2012-13 Budget, tax receipts have been revised down by around $17 billion in 2012-13, bringing the total write-downs in tax receipts over the five years since the 2008-09 Budget to around $170 billion. Since the 2012-13 MYEFO, tax receipts have been revised down by around $60 billion over the four years to 2015-16.

Responding to changing economic and fiscal circumstances is a central element of the Government's fiscal strategy. The Government has chosen to recalibrate the pace of fiscal consolidation to ensure that it does not weaken economic growth in the near term. A more gradual return to surplus is appropriate given the significant downgrades to revenue and the transition underway in the economy. The consolidation is responsibly paced, amounting to around half of a percentage point of GDP a year, on average, from 2013-14 to the end of the forward estimates.

The Government's approach is to let the automatic stabilisers on the revenue side of the budget operate in the near term. This means not offsetting substantial near term revenue downgrades by making large spending cuts, which would come at a significant cost to jobs and growth.

The Government continues to exercise spending restraint, in a way that does not put Australia's solid growth and low unemployment at risk by making drastic cuts in the near term to offset lower than expected tax receipts. The expected overall impact of the Government's policy decisions on economic growth and employment in 2012-13 and 2013-14 is largely unchanged since MYEFO.

Without the net impact of policy decisions in this Budget, there would have been underlying cash deficits of $17.8 billion in 2013-14, $17.4 billion in 2014-15, $11.6 billion in 2015-16 and $5.6 billion in 2016-17.

This Government is taking a measured pathway back to surplus within the forward estimates. Decisions taken this Budget will result in $43 billion of total savings. The net budget impact of policy decisions is a $28.4 billion improvement to the underlying cash balance over forward estimates, including an improvement of $12.2 billion in 2016-17, bringing the budget back to balance by 2015-16 and into surplus in 2016-17, well ahead of most advanced economies.

Table 1: Budget aggregates

	Actual	Estimates			Projections	
	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Underlying cash balance ($b)(a)	**-43.4**	**-19.4**	**-18.0**	**-10.9**	**0.8**	**6.6**
Per cent of GDP	-2.9	-1.3	-1.1	-0.6	0.0	0.4
Fiscal balance ($b)	**-44.5**	**-20.3**	**-13.5**	**-6.3**	**6.0**	**10.8**
Per cent of GDP	-3.0	-1.3	-0.8	-0.4	0.3	0.6

(a) Excludes net Future Fund earnings.

While the return to surplus is more gradual, the Government's fiscal consolidation provides ongoing scope for monetary policy to respond to economic developments as needed. Just as the Government's fiscal settings are consistent with solid growth and low unemployment, they are also consistent with contained inflation. The Government's fiscal consolidation has already given the RBA scope to ease monetary policy, with policy interest rates reduced by 200 basis points since late 2011.

Lower interest rates are already providing support to many sectors, assisting the transition towards non-resource drivers of growth over the forecast period.

Fiscal sustainability is also being improved by implementing policies that increase long-term growth in the economy, and boost Australia's productivity through investment in education, skills and critical infrastructure.

The Government's commitment to fiscal restraint will ensure that Australia's fiscal position remains one of the strongest in the developed world.

By the time Australia is expected to return the budget to balance in 2015-16, the IMF estimates that 24 out of 35 advanced economies will still be in deficit.

Net debt is expected to peak at 11.4 per cent of GDP in 2014-15, reducing to zero by 2021-22. While average net debt for the major advanced economies is expected to peak at 92.6 per cent of GDP in 2014, Australia's net debt as a share of GDP is expected to peak at less than one-eighth of that level.

The Government's fiscal strategy

Within the framework of the Government's medium-term fiscal strategy, Australia's fiscal policy settings have helped the Australian economy remain resilient through the global financial crisis and severe global economic turbulence in recent years.

The fiscal strategy is designed to ensure fiscal sustainability over the medium term, but it also provides the necessary flexibility for the budget to vary in line with economic conditions in the short term to support macroeconomic stability.

Adhering to the fiscal strategy will allow the economy to continue to remain responsive to global challenges and the effect they have on our economy, while reducing net debt over time and keeping government borrowing costs low.

The medium-term fiscal strategy has remained unchanged since 2008-09, the Government's first budget (see Box 1 below).

Box 1: The medium-term fiscal strategy

The Government's medium-term fiscal strategy is to:

- achieve budget surpluses, on average, over the medium term;
- keep taxation as a share of GDP, on average, below the level for 2007-08 (23.7 per cent); and
- improve the Government's net financial worth over the medium term.

To ensure a timely return to surplus and recovery in the fiscal position, since the beginning of the global financial crisis the Government has further committed to:

- allow the level of tax receipts to recover naturally as the economy improves, while maintaining the Government's commitment to keep taxation as a share of GDP below the 2007-08 level on average; and
- build growing surpluses by holding real growth in spending to 2 per cent a year, on average, until the budget surplus is at least 1 per cent of GDP, and while the economy is growing at or above trend.

This Budget provides a pathway to budget balance in 2015-16 and increasing surpluses from 2016-17, which will improve the Government's net financial worth over the medium term. Real growth in spending has remained low, at an average rate of 1.3 per cent from 2012-13 to 2016-17, the lowest five-year average growth rate for 25 years.

Taxation as a share of GDP over the forward estimates is expected to average 22.5 per cent, which is 1.5 percentage points lower than during the last four years of the previous government.

Estimates of taxation receipts have declined significantly

The Australian economy continues to outperform most of the developed world. Australia's level of real GDP is significantly above its pre-global financial crisis level, in stark contrast to the major advanced economies. Australia's real GDP is also expected to continue to grow faster than most of the developed world over the forecast period, building on Australia's impressive record of economic growth and job creation over the past five years.

Nevertheless, it is nominal as opposed to real GDP that ultimately determines government revenue and the Government's fiscal position, and over the year to December, nominal GDP grew by only 2.0 per cent, well below real GDP growth of 3.1 per cent. Nominal GDP reflects both production and prices for Australian output.

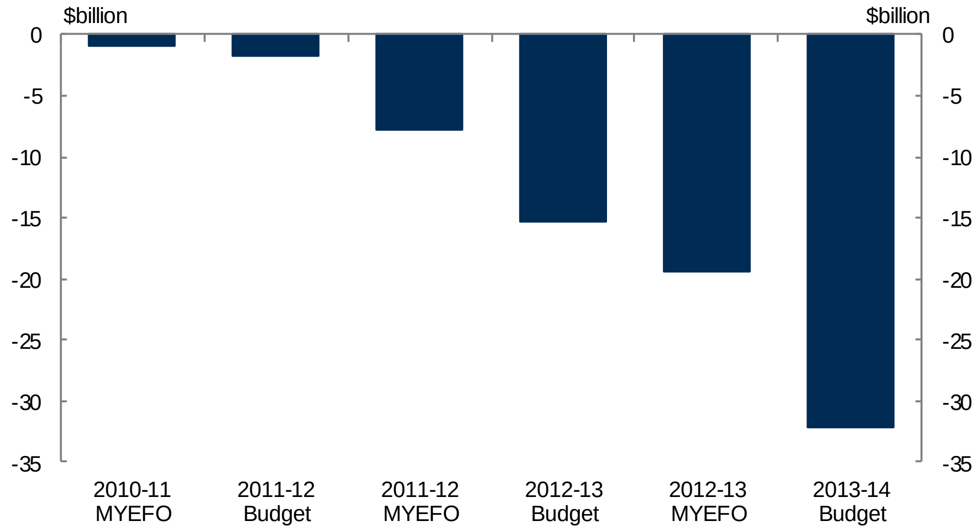
The unusual combination of a persistently high dollar and falling commodity prices is having an acute and persistent impact on prices and profitability across the economy, including in the resources sector. Consumer caution and changing spending patterns have added further competitive pressure on retailers. Firms have been absorbing costs rather than passing them on as higher prices, which has reduced profit margins.

Tax receipts have been significantly affected by these changes. Lower company profits across most of the economy have had a significant impact on the level of company tax receipts expected in 2012-13 and over the forward estimates. Lower than expected capital gains tax (CGT) and resource rent taxes have compounded the fall in company tax receipts. Income tax withholding and consumption taxes have been revised down to a lesser extent, as wages are expected to grow modestly and consumption is expected to remain solid over the forward estimates.

Since MYEFO, tax receipts have been revised down by $12.9 billion in 2012-13 and $16.6 billion in 2013-14. Company tax receipts have been revised down by around $5.2 billion in 2012-13 and $7.2 billion in 2013-14. CGT, an important component of individuals, companies and superannuation funds tax, is also contributing to the weaker revenue outlook. Since the 2012-13 MYEFO, total CGT receipts have been revised down by $1.8 billion in 2012-13 and $2.9 billion in 2013-14. Resource rent taxes have been revised down by $3.6 billion in 2012-13 and $3.2 billion in 2013-14.

Tax receipts have been revised down by around $170 billion over the five years to 2012-13. For 2012-13 alone, tax receipts (excluding policy decisions) have been revised down by around $32 billion since the 2010-11 Budget (see Chart 1 below).

Chart 1: Cumulative tax receipts write-down in 2012-13 since the 2010-11 Budget



Source: Treasury.

Across the forward estimates, tax receipts as a share of GDP are expected to remain well below pre-global financial crisis levels. The tax-to-GDP ratio in 2013–14 is estimated to be 22.2 per cent, 1.8 percentage points lower than the average of the five years prior to the global financial crisis of 24.0 per cent.

These revenue write-downs have made fiscal consolidation more challenging, with larger policy adjustments needed to achieve the same budget outcome. The Government continues to exercise spending restraint, but will not put Australia's solid growth and low unemployment at risk by offsetting substantial revenue write-downs in the near term.

Maintaining fiscal discipline has kept the budget on a pathway to surplus

It is important that the pace of fiscal consolidation is calibrated to economic circumstances to avoid a detrimental impact on growth and jobs.

A measured pathway back to surplus is in line with principles of sound economic policy, striking the right balance between protecting Australia's solid growth and low unemployment, maintaining a strong fiscal position and improving fiscal sustainability in the medium term.

The IMF has said in its April 2013 *World Economic Outlook* that 'in advanced economies, the right macroeconomic approach continues to be gradual but sustained fiscal adjustment, built on measures that limit damage to activity'.

In Australia, revenue write-downs have considerably increased the fiscal adjustment needed to return to surplus, relative to expectations at the time of the 2010-11 Budget when a surplus in 2012-13 was initially forecast. Budget Statement 4, *Fiscal Policy in the Current Economic Environment,* shows that at the time of the 2010-11 Budget, returning to surplus in 2012-13 required a fiscal adjustment, over and above the automatic impacts of the economic cycle and unwinding of the temporary stimulus, of around 1.6 per cent of GDP.

Cumulative parameter variations since the 2010-11 Budget have increased the required fiscal adjustment to 3.4 per cent of GDP; more than double the originally anticipated adjustment.

Offsetting the significant revenue write-downs since MYEFO in such a short timeframe would have come at a significant cost to jobs and growth. This would lead, in turn, to even lower revenue and increased spending on unemployment benefits.

Given this, the timing of the consolidation has been recalibrated to manage its impact on growth and jobs. Since the global financial crisis, the temporary stimulus measures have been withdrawn and spending discipline imposed, with the fiscal consolidation between 2011-12 and 2012-13 alone equivalent to 1.6 per cent of GDP.

The change in the pace of consolidation over the forward estimates is largely owing to the significant write-down in tax receipts.

From 2014-15, policy decisions are expected to have a more significant role in the fiscal consolidation than in 2013-14. All new payment decisions within the forward estimates have been more than offset by payments savings measures.

Savings

Fiscal discipline involves ensuring that any expansions in one area are matched by responsible savings in other areas, in addition to any savings needed to continue fiscal consolidation in support of the Government's medium-term fiscal strategy.

All new decisions taken in this Budget have been more than fully offset, contributing to the return to surplus.

Table 2 shows the effect of spending and savings decisions since MYEFO. The net budget impact of policy decisions takes into account amounts that were previously provisioned for in the Contingency Reserve (and as a result have no net impact on the budget position). These principally relate to the continuation of the Early Childhood Education National Partnership, and Official Development Assistance.

Table 2: Effect of spending and savings decisions in the 2013-14 Budget[(a)]

	Estimates			Projections		
	2012-13	2013-14	2014-15	2015-16	2016-17	Total
	$m	$m	$m	$m	$m	$m
Effect of policy decisions since MYEFO						
Spends	**-2,604**	**-2,470**	**-3,212**	**-2,853**	**-4,465**	**-15,604**
Payments	*-2,474*	*-2,386*	*-3,172*	*-2,857*	*-4,437*	*-15,325*
Receipts	*-130*	*-83*	*-41*	*4*	*-28*	*-278*
Saves	**246**	**1,750**	**9,400**	**15,176**	**16,471**	**43,043**
Payments	*172*	*1,411*	*3,756*	*5,660*	*6,295*	*17,294*
Receipts	*75*	*338*	*5,644*	*9,517*	*10,175*	*25,749*
Total effect of policy decisions since MYEFO	**-2,358**	**-720**	**6,188**	**12,324**	**12,005**	**27,439**
Add Contingency Reserve offsets to policy decisions	4	433	289	77	195	998
Net budget impact of policy decisions	**-2,354**	**-286**	**6,476**	**12,401**	**12,200**	**28,437**

(a) On an underlying cash basis.

The net budget impact of policy decisions is a $28.4 billion improvement to the underlying cash balance over the forward estimates.

The Government has made $43.0 billion in savings in this Budget to pay for new spending of $15.6 billion (of which $1.0 billion had been provisioned for in the Contingency Reserve).

The savings in this Budget build on the $16.4 billion of savings in the 2012-13 MYEFO and more than $130 billion of savings identified in the five budgets since 2008-09. Policy decisions made in this Budget will deliver the largest improvement to the forward estimates position in nearly two decades.

The revenue position has been enhanced by a range of measures, including increasing the Medicare levy to help fund *DisabilityCare Australia*, a package of measures to protect the corporate tax base, and measures to improve the sustainability of the superannuation system. Collectively, policy measures add $25.5 billion to receipts over the five years to 2016-17.

The sustainability of Government finances has also been improved over the medium term as many of the budget savings identified will deliver continuing benefits to the bottom line beyond the forward estimates.

Long-term savings

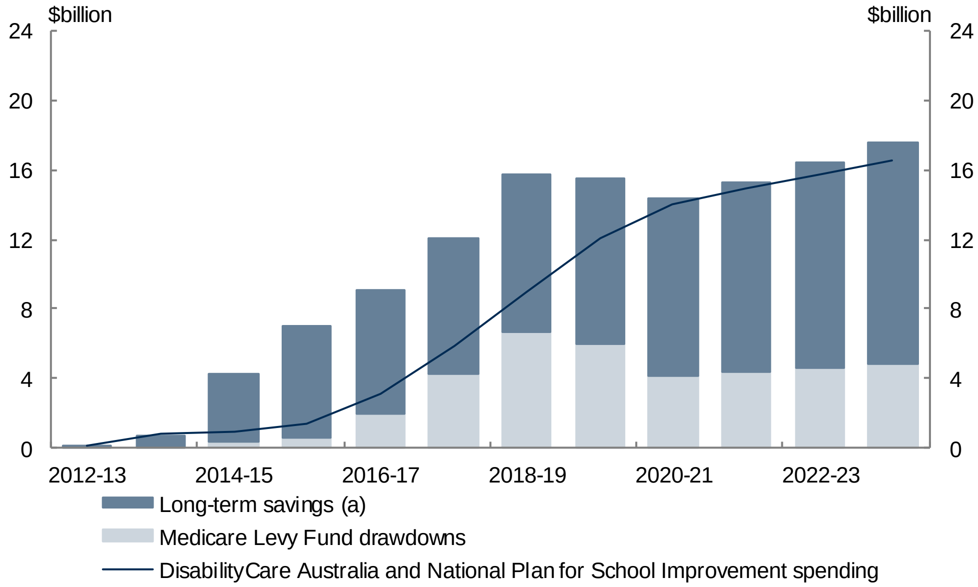
Since its first Budget in 2008-09, the Government has consistently made savings decisions that continue to benefit the budget position beyond the forward estimates.

Significant long-term savings in this Budget include reforms to superannuation and business taxation, the increase in the Medicare levy and reforms to family payments.

These savings build on earlier long-term savings such as means testing the private health insurance rebate, reforming a number of fringe benefits tax concessions and reducing superannuation concessions for very high income earners.

These measures have allowed the Government to fund new priorities such as establishing *DisabilityCare Australia* and the National Plan for School Improvement (Chart 2 below). The enduring savings have also helped improve the budget bottom line, helping to achieve the goals of the Government's medium-term fiscal strategy.

Chart 2: Making room for the National Plan for School Improvement and *DisabilityCare Australia*



(a) Long-term savings from 2013-14 Budget and 2012-13 MYEFO, excluding Medicare Levy and net of Dental Care Reform expenditure.

Without the long-term savings made since the 2008-09 Budget, the outlook would be much poorer (see Box 3 in Statement 4, *Fiscal Policy in the Current Economic Environment*). The long-term savings the Government has made in this Budget and previously mean that the budget is cumulatively better off by over $300 billion by 2020-21. These savings also help to deal with the longer-term budget pressures that were identified in the *Intergenerational Report 2010*. This report showed that without changes to future policy the expenditure pressures from ageing and other factors would create a significant fiscal gap by 2050. Changes to health expenditure, including measures to improve sustainability in this Budget, have helped to reduce one of the most significant contributors to the projected fiscal gap.

Payments

A continuing focus on restraining growth in payments remains an important element of the Government's fiscal strategy. Given the range of factors that can affect payments in any one year, looking at payments over a number of years is a better indicator of spending patterns.

The discipline imposed on real spending growth has kept payments as a share of GDP at or below 24.5 per cent across the forward estimates, dropping to 24 per cent or below by 2015-16. This discipline has also meant that the average payment to GDP ratio over the five years from 2012-13 is lower than the average payment to GDP ratio over the previous thirty years.

Assessing payments over a number of years to judge spending restraint is reflected in the Government's commitment to holding real growth in spending to 2 per cent a year, on average, until the budget surplus is at least 1 per cent of GDP, and while the economy is growing at or above trend.

Table 3: Real growth in payments

	2012-13	2013-14	2014-15	2015-16	2016-17
Real payment growth	-3.2	4.3	2.2	1.4	1.9
Average real growth in payments			1.3		

Table 3 shows that real growth in payments is estimated to be -3.2 per cent in 2012-13, rising to 4.3 per cent in 2013-14 and averaging 1.3 per cent over the five years to 2016-17.

The proportion of payments to GDP decreases over the forward estimates; with all new payments more than offset by reductions in lower priority existing payments.

FISCAL OUTLOOK

Table 4 shows that an underlying cash deficit of $18.0 billion (1.1 per cent of GDP) is expected in 2013-14; moving to balance in 2015-16 and a surplus of $6.6 billion (0.4 per cent of GDP) in 2016-17.

In accrual terms, a fiscal deficit of $13.5 billion (0.8 per cent of GDP) is expected for 2013-14, moving to a surplus of $6 billion (0.3 per cent of GDP) in 2015-16 and a surplus of $10.8 billion (0.6 per cent of GDP) in 2016-17.

Table 4: Australian Government general government sector budget aggregates

	Actual	Estimates			Projections	
	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
	$b	$b	$b	$b	$b	$b
Receipts	**329.9**	**350.4**	**376.0**	**401.2**	**428.9**	**453.6**
Per cent of GDP	22.4	23.0	23.5	23.9	24.3	24.4
Payments(a)	**371.0**	**367.3**	**391.2**	**409.1**	**425.0**	**443.7**
Per cent of GDP	25.2	24.2	24.5	24.4	24.0	23.8
Net Future Fund earnings	2.2	2.5	2.8	2.9	3.1	3.3
Underlying cash balance(b)	**-43.4**	**-19.4**	**-18.0**	**-10.9**	**0.8**	**6.6**
Per cent of GDP	-2.9	-1.3	-1.1	-0.6	0.0	0.4
Revenue	**338.1**	**360.0**	**387.7**	**411.6**	**438.1**	**468.6**
Per cent of GDP	22.9	23.7	24.3	24.5	24.8	25.2
Expenses	**377.7**	**381.4**	**398.3**	**415.7**	**431.0**	**454.7**
Per cent of GDP	25.6	25.1	24.9	24.8	24.4	24.4
Net operating balance	-39.6	-21.5	-10.6	-4.1	7.1	13.8
Net capital investment	4.9	-1.2	2.9	2.2	1.1	3.0
Fiscal balance	**-44.5**	**-20.3**	**-13.5**	**-6.3**	**6.0**	**10.8**
Per cent of GDP	-3.0	-1.3	-0.8	-0.4	0.3	0.6
Memorandum item:						
Headline cash balance	-47.0	-22.2	-25.3	-21.0	-8.6	-3.3

(a) Equivalent to cash payments for operating activities, purchases of non-financial assets and net acquisition of assets under finance leases.
(b) Excludes net Future Fund earnings.

Cash flows

In 2013-14, an underlying cash deficit of $18.0 billion is expected, and a headline cash deficit of $25.3 billion. Table 5 provides a summary of Australian Government general government sector cash flows.

Table 5: Summary of Australian Government general government sector cash flows

	Estimates			Projections	
	2012-13	2013-14	2014-15	2015-16	2016-17
	$b	$b	$b	$b	$b
Cash receipts					
Operating cash receipts	348.8	375.6	398.1	427.2	453.4
Capital cash receipts(a)	1.6	0.4	3.1	1.7	0.2
Total cash receipts	350.4	376.0	401.2	428.9	453.6
Cash payments					
Operating cash payments	359.3	382.4	400.0	416.2	434.5
Capital cash payments(b)	7.5	8.3	9.1	8.7	9.3
Total cash payments	366.9	390.7	409.1	425.0	443.7
Finance leases and similar arrangements(c)	0.4	0.5	0.0	0.0	0.0
GFS cash surplus(+)/deficit(-)	**-16.9**	**-15.2**	**-8.0**	**4.0**	**9.9**
Per cent of GDP	-1.1	-1.0	-0.5	0.2	0.5
less Net Future Fund earnings	2.5	2.8	2.9	3.1	3.3
Underlying cash balance(d)	**-19.4**	**-18.0**	**-10.9**	**0.8**	**6.6**
Per cent of GDP	-1.3	-1.1	-0.6	0.0	0.4
Memorandum items:					
Net cash flows from investments in financial assets for policy purposes	-5.3	-10.1	-13.1	-12.6	-13.2
plus Net Future Fund earnings	2.5	2.8	2.9	3.1	3.3
Headline cash balance	**-22.2**	**-25.3**	**-21.0**	**-8.6**	**-3.3**

(a) Equivalent to cash receipts from the sale of non-financial assets in the cash flow statement.
(b) Equivalent to cash payments for purchases of non-financial assets in the cash flow statement.
(c) The acquisition of assets under finance leases decreases the underlying cash balance. The disposal of assets previously held under finance leases increases the underlying cash balance.
(d) Excludes expected net Future Fund earnings.

Variations to the underlying cash balance estimates

Table 6 provides a reconciliation of the variations in the underlying cash balance since the 2012-13 Budget.

The change in estimated underlying cash balance since MYEFO is largely a result of write-downs in taxation receipts, offset in part by the effect of policy decisions which improve the underlying cash balance by $15.4 billion over the four years from 2012–13.

Table 6: Reconciliation of underlying cash balance estimates

	Estimates			Projections
	2012-13	2013-14	2014-15	2015-16
	$m	$m	$m	$m
2012-13 Budget underlying cash balance(a)	**1,536**	**2,044**	**5,318**	**7,469**
Per cent of GDP	0.1	0.1	0.3	0.4
Changes from 2012-13 Budget to 2012-13 MYEFO				
Effect of policy decisions(b)	1,411	5,121	1,917	1,897
Effect of parameter and other variations	-1,869	-5,000	-3,910	-2,958
Total variations	-458	121	-1,993	-1,061
2012-13 MYEFO underlying cash balance(a)	**1,077**	**2,165**	**3,325**	**6,408**
Per cent of GDP	0.1	0.1	0.2	0.4
Changes from 2012-13 MYEFO to 2013-14 Budget				
Effect of policy decisions(b)(c)				
Receipts	*-56*	*255*	*5,603*	*9,521*
Payments	*2,302*	*975*	*-584*	*-2,803*
Total policy decisions impact on underlying cash balance	-2,358	-720	6,188	12,324
Effect of parameter and other variations(c)				
Receipts(d)	*-16,358*	*-17,024*	*-14,557*	*-15,306*
Payments	*1,738*	*2,464*	*5,843*	*2,576*
Total parameter and other variations impact on underlying cash balance	-18,096	-19,488	-20,400	-17,882
2013-14 Budget underlying cash balance(a)	**-19,377**	**-18,043**	**-10,888**	**849**
Per cent of GDP	-1.3	-1.1	-0.6	0.0

(a) 2012-13 MYEFO and 2013-14 Budget figures exclude expected net Future Fund earnings, whereas 2012-13 Budget figures exclude expected gross Future Fund earnings.
(b) Excludes secondary impacts on public debt interest of policy decisions and offsets from the Contingency Reserve for decisions taken.
(c) 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.
(d) Receipts will differ from the cash receipts reconciliation published in Budget Statement 5 as the table above excludes Future Fund earnings while Statement 5 includes Future Fund earnings.

Changes to receipt estimates since MYEFO

Since the 2012-13 MYEFO, tax receipts have been revised down by $12.9 billion in 2012-13, $16.6 billion in 2013-14 and $61.0 billion over the four years to 2015-16.

Company tax is the single largest contributor to the write-downs in tax receipts. Lower than expected CGT and resource rent taxes have compounded the fall in company tax receipts.

- Of this, company tax receipts account for $5.2 billion in 2012-13, $7.2 billion in 2013-14 and $24.3 billion over the four years to 2015-16. This reflects lower than expected company profitability across most sectors of the economy. Lags in the company tax system mean that lower profitability in 2012-13 will be felt across a number of years.

- Gross resource rent taxes, comprised of minerals resource rent taxes (MRRT) and petroleum resource rent taxes (PRRT), have been written-down significantly compared to the 2012-13 MYEFO. Resource rent taxes are expected to be $3.6 billion lower in 2012-13 and $3.2 billion in 2013-14. These taxes are highly sensitive to the assumptions regarding production volumes, capital deductions, commodity prices and the exchange rate.

– While MRRT receipts have been much lower than expected in 2012-13, they are expected to grow over the forward estimates. MRRT receipts will be supported by very strong increases in production volumes as the economy transitions from the investment phase of the mining boom towards a record expansion in resources production and exports (iron ore exports are expected to grow by around 40 per cent from 2012-13 to 2016-17). In addition, capital expenditure — which can be immediately written off for MRRT purposes — is expected to be lower in the out years than projected at the 2012-13 MYEFO (see Budget Statement 2, Box 8).

– Net MRRT receipts are expected to be around $1.8 billion lower in 2012-13 and $1.7 billion lower in 2013-14.

– PRRT receipts are expected to be weaker across the entire forward estimates, reflecting, in part, a softening in petroleum prices and lower assumed production levels across a number of relevant fields.

• CGT, which is an important component of individuals, companies and superannuation funds tax, is expected to be lower by $1.8 billion in 2012-13 and $2.9 billion in 2013-14, reflecting the continuing utilisation of a large amount of capital losses.

Compared to the 2012-13 MYEFO, carbon pricing mechanism (CPM) receipts are expected to be $140 million higher in 2012-13, largely owing to lower free permit allocations offsetting reduced carbon emissions. Receipts are expected to be $530 million lower in 2013-14; largely reflecting downward revisions to forecast emissions, and the lower international carbon price associated with the advance auctions of permits.

Indirect taxes excluding CPM have been revised down by $760 million in 2012-13, largely reflecting a $515 million write-down of GST and a $900 million downgrade in excise receipts, partly offset by higher customs duties. Indirect taxes, excluding CPM, have been revised down by around $1.4 billion in 2013-14 and $5.2 billion over the four years to 2015-16.

Since the 2012-13 MYEFO, non-tax receipts have declined by $3.7 billion in 2012-13, largely reflecting the deferral of receipts relating to the auction of the digital dividend spectrum, previously anticipated to be received in 2012-13. The timing of final digital dividend receipts was changed in response to industry concern about paying for both the reissue of expiring spectrum licences and spectrum licences won at the digital dividend auction within a short period of time.

Policy decisions since the 2012-13 MYEFO are expected to increase receipts by $255 million in 2013-14, $5.6 billion in 2014-15, $9.5 billion in 2015-16 and $10.1 billion in 2016-17. These decisions include: increasing the Medicare levy to help fund *DisabilityCare Australia*, protecting the integrity of the income tax base, improving the sustainability of the superannuation system and better targeting tax expenditures.

The Medicare levy will be increased by half a percentage point from 1 July 2014 to provide strong and stable funding for *DisabilityCare Australia*. This is expected to increase tax receipts by $11.4 billion over the forward estimates period. All of the monies raised by the additional levy will go directly to the *DisabilityCare Australia* Fund. This fund is expected to generate $467 million in non-tax receipts over the forward estimates period. To assist with establishing *DisabilityCare Australia*, the Government will make a share of the *DisabilityCare Australia* Fund available to States and Territories.

The Budget also contains measures to protect the integrity of the income tax base and promote better tax compliance, including the following:

- the *Protecting the corporate tax base from erosion and loopholes* package contains a series of measures to address abuses that take advantage of design flaws, vulnerabilities and unexpected interactions in the corporate tax law from changes made in the early 2000s. This package is expected to increase tax receipts by $4.1 billion over the forward estimates period;

- providing additional resources to the Australian Taxation Office (ATO) to expand data matching with third party information. This is expected to increase tax receipts by $432 million over the forward estimates period; and

- providing additional resources to the ATO to address risks to the tax system from exploitation of trust structures. This is expected to increase tax receipts by $217 million over the forward estimates period.

Other key revenue measures include the following:

- deferring the Clean Energy Future personal income tax cuts that were scheduled to commence on 1 July 2015. These tax cuts were designed to assist households with the effects of an increase in the carbon price from $25.40 in 2014-15 to $29 in 2015-16. The carbon price in 2015-16 is now projected to be lower ($12.10) than the fixed price in 2014-15. As a result, households will not experience the impact of an additional rise in the carbon price and the 2015-16 tax cuts will be deferred until the carbon price in the Budget is estimated to rise above $25.40. This is currently projected to occur in 2018-19. Households will receive more assistance than was anticipated to be necessary to assist them with the cost of living impact of the carbon price in 2015-16. This measure is expected to increase tax receipts by $1.5 billion over the forward estimates period;

- better targeting support for research and development (R&D) by limiting access to the R&D tax incentive so that it only applies to companies with annual aggregate Australian turnover of less than $20 billion from 1 July 2013. This is estimated to increase tax receipts by $1.1 billion over the forward estimates period;

- extending the requirement to make monthly pay-as-you-go (PAYG) income tax instalments to include all large entities in the PAYG instalment system, including trusts, superannuation funds, sole traders and large investors. This measure is expected to have a gain to tax receipts of $1.4 billion over the forward estimates period;

- phasing out the Net Medical Expenses Tax Offset as reforms to aged care are implemented and *DisabilityCare Australia* is introduced. All existing claimants will be grandfathered for two years, and claims for aged care, disability aids and attendant care will be allowed through until 30 June 2019. This is estimated to increase tax receipts by $968 million over the forward estimates period;

- restructuring the Import Processing Charge to recover the costs of all import related cargo and trade functions undertaken by the Australian Customs and Border Protection Service. This is expected to increase tax receipts by $674 million over the forward estimates period;

- simplifying the design and administration of the proposed higher superannuation concessional contributions cap by providing a $35,000 concessional cap to anyone who meets certain age requirements. This is estimated to increase tax receipts by $365 million over the forward estimates period, as the overall receipts cost of providing the higher cap will fall from $1.5 billion to $1.2 billion;

- better targeting the tax exemption for earnings on superannuation assets supporting retirement income streams, by limiting it to the first $100,000 of annual earnings for each individual, and taxing earnings above that threshold at the concessional rate of 15 per cent. This is expected to increase tax receipts by $356 million over the forward estimates period; and

- indexing tobacco excise to average weekly ordinary time earnings (AWOTE), instead of the CPI. Due to taxpayer confidentiality, this measure has been incorporated into the Budget estimates as a parameter and other variation.

There are also a small number of policy measures since the 2012-13 MYEFO which reduce tax receipts. These include:

- providing petroleum resource rent taxpayers with certainty regarding the scope of deductible expenditure, following recent litigation. This is expected to reduce receipts by $120 million over the forward estimates period; and

- making the superannuation excess contributions tax system fairer by taxing excess concessional contributions at an individual's marginal tax rate plus an interest charge, rather than always taxing them at the top marginal tax rate. This is expected to reduce tax receipts by $55 million over the forward estimates period.

The broader effect on the budget of revisions to the carbon price is outlined in Box 2.

Box 2: Changes to Clean Energy Future Plan

The Government's Clean Energy Future (CEF) Plan is designed to reduce Australia's emissions through a carbon price while supporting households and industry transition to a low-carbon economy.

Starting at $23 in 2012-13, the carbon price is fixed for the first three years until 1 July 2015 when the scheme will transition to a flexible price linked to the European Union (EU) emissions trading scheme. The price in Europe has fallen due in large part to ongoing economic weakness. The flexible carbon price underpinning the 2013-14 Budget has been revised down (see Box 9 in Statement 2).

The carbon price is designed to reduce emissions at a low cost as part of global efforts to improve environmental outcomes. It was not designed to bolster the budget. While the price varies with market movements under an emissions trading scheme, there is a hard cap on the amount of net carbon emissions across the economy. A lower carbon price implies a lower cost to businesses and a lower impact on consumer prices.

Taking into account updated emissions estimates, the revised permit price is estimated to reduce carbon price revenue by around $6 billion over the four years to 2015-16, offset by automatic adjustments and other related policy changes. The overall impact on the fiscal balance is broadly budget neutral over the four years to 2015-16. On the same basis, carbon price receipts are estimated to be $3.7 billion lower over the four years to 2015-16. Taking into account the related changes in this Budget, the net negative impact on the underlying cash balance is around $1 billion over the four years to 2015-16.

Significant elements of industry assistance in the CEF Plan will move in line with changes in the carbon price. These elements include permit based assistance to emissions-intensive, trade-exposed entities under the Jobs and Competitiveness Program, support for electricity generators under the Energy Security Fund and assistance provided through the Coal Sector Jobs Package. The value of assistance under these programs is estimated to be reduced by around $3.9 billion over the four years to 2015-16, in line with the lower carbon-related costs they face.

The CEF Plan included a range of household assistance measures, including tax cuts and increases in pensions, allowances, family payments and other benefits. The household assistance remains in place and the value of payments will be maintained by the normal indexation arrangements. To the extent the carbon price in 2015-16 falls below what had previously been projected, households will receive more assistance than was anticipated to be necessary to assist with the cost of living impact of carbon pricing.

Box 2: Changes to Clean Energy Future Plan (continued)

The Government has decided, however, to defer the CEF personal income tax cuts scheduled to commence on 1 July 2015. There will be no change to the tax cuts applied from the 2012-13 income year.

The additional tax cuts from 1 July 2015 were intended to provide assistance for low and middle income households for a projected increase in the carbon price to $29 in 2015-16, from the fixed price of $25.40 in 2014-15. As the carbon price in 2015-16 is now projected to be lower than $25.40 these tax cuts will be deferred until the carbon price estimated in the Budget is above $25.40. Based on current projections, the carbon price is estimated to be above $25.40 in 2018-19. The Government will continue to monitor the carbon price to ensure the adequacy of household assistance is consistent with its commitments and will bring forward the additional tax cuts should the carbon pricing outlook change earlier than projected.

The Government has also made some decisions to refine particular CEF programs. The Australian Renewable Energy Agency, the Clean Technology Program and the Biodiversity Fund will all have funding adjusted, including to extend the life of the programs over a longer period. The overall level of funding for the clean technology programs has not changed and ARENA funding will remain at over $3 billion over the life of the program.

With the lower projected carbon price, the level of funding for some programs, such as the Carbon Capture and Storage Flagships and the National Low Emissions Coal Initiative, has been reduced. Calls for support from the Regional Structural Adjustment Assistance program have been negligible and this program will not continue.

As part of the second commitment period under the Kyoto Protocol, the Government has elected to include abatement from additional land based activities to count towards Australia's international targets. Farmers and landholders will now be able to sell a wider range of carbon credits to liable entities under the carbon pricing mechanism.

Payment policy decisions since MYEFO

Since MYEFO, total cash payments for 2013-14 have increased by $3.4 billion, comprised of new policy decisions which have increased payments by $975 million and parameter and other variations which have increased payments by $2.5 billion.

Major policy decisions since MYEFO that have increased cash payments in 2013-14 and over the five years to 2016-17 include:

- the *Better Schools: A National Plan for School Improvement* package. These measures will deliver a new school funding system to ensure that every Australian school has the necessary funds to give students the support they need. The cost of these measures assumes the acceptance by all states and territories and non-government school education authorities of the proposed school funding reforms. These measures are expected to increase payments to schools by $473 million in 2013-14 ($9.8 billion over six years from 2014-15);

- implementing *DisabilityCare Australia*, the national disability insurance scheme, to be jointly funded by Commonwealth, State and Territory governments, which will mean that, for the first time, Australians with significant and permanent disability will get the support they need, when they need it. *DisabilityCare Australia* will provide eligible participants with reasonable and necessary support tailored to their individual circumstances in South Australia (for young children), Tasmania (for young adults), the Hunter in New South Wales, and the Barwon area of Victoria from 1 July 2013, and in the Australian Capital Territory and the Barkly region of the Northern Territory from 1 July 2014. *DisabilityCare Australia* will provide state-wide coverage in New South Wales, South Australia and the Australian Capital Territory by 1 July 2018 and in Victoria, Queensland, Tasmania and the Northern Territory from 1 July 2019. This measure is expected to increase Commonwealth payments by $27 million in 2013-14 ($14.3 billion over the seven years from 2012-13 until full implementation, including funding in the 2012-13 budget);

- a number of new and amended listings on the Pharmaceutical Benefits Scheme and the Repatriation Pharmaceutical Benefits Scheme, which are expected to increase payments by $139 million in 2013-14 ($682 million over the five years to 2016-17);

- continuing, in 2013-14, Australia's contribution to international stabilisation and counter-terrorism in Afghanistan and the Middle East Area of Operations. This measure is expected to increase payments by $534 million in 2013-14 ($586 million over the five years to 2016-17); and

- the Royal Commission into Institutional Reponses to Child Sexual Abuse. This measure is expected to increase payments by $130 million in 2013-14 ($434 million over the five years to 2016-17).

The impact of these policy decisions on payments has been more than offset over the five years to 2016-17 by a number of decisions that have reduced cash payments, including:

- a range of changes to Family Tax Benefit (FTB) payments, including not proceeding with the 2012-13 Budget measure *Spreading the Benefits of the Boom*; changing the financial support arrangements for families following the birth or adoption of a child; and continuing the current indexation pauses on upper income thresholds and supplements. Changes to family payments are expected to decrease overall payments by $349 million in 2013-14 ($4.3 billion over the five years to 2016-17);

- offering Student Start-up Scholarships as income contingent loans, rather than as grants, to all new full-time higher education students in receipt of Youth Allowance, Austudy or ABSTUDY from 1 January 2014. This measure is expected to decrease payments by $35 million in 2013-14 ($1.2 billion over the five years to 2016-17);

- applying an efficiency dividend of 2.0 per cent in 2014 and 1.25 per cent in 2015 to most grants provided under the *Higher Education Support Act 2003*. This measure is expected to decrease payments by $85 million in 2013-14 ($903 million over the five years to 2016-17, although funding is still projected to grow by $1.1 billion over this period);

- removing the discounts applying to up-front payments and voluntary repayments under the Higher Education Loan Program from 1 January 2014. This measure is expected to decrease payments by $34 million in 2013-14 ($267 million over the five years to 2016-17);

- realigning indexation of the Medicare Benefits Schedule to the financial year. This measure is expected to decrease payments by $151 million in 2013-14 ($653 million over the five years to 2016-17); and

- deferring the commitment to 0.5 per cent of Gross National Income on Official Development Assistance by one year to 2017-18. This measure is expected to decrease payments by $1.9 billion over the five years to 2016-17. Under this new profile, ODA spending is forecast to grow by 42.4 per cent from 2013-14 across the forward estimates.

Further details of Government policy decisions are provided in Budget Paper No. 2, *Budget Measures 2013-14*. The expense estimates provided in Budget Paper No. 2 are in accrual terms and may not align exactly with the underlying cash payment figures provided in this Statement.

Payment estimates variations since MYEFO

This Budget also incorporates some major changes in expected payments in 2013-14 as a result of parameter and other variations since MYEFO.

Major increases in expected payments in 2013-14 as a result of parameter and other variations since MYEFO include:

- payments under the Natural Disaster Relief and Recovery Arrangements, which are expected to be $219 million higher in 2013-14 ($1.9 billion over the four years to 2015-16), primarily relating to relief and recovery payments for the floods in early 2013 in Queensland and northern New South Wales;
- Research and Development Tax Incentive payments, which are expected to be $135 million higher in 2013-14 ($574 million over the four years to 2015-16), largely reflecting higher than expected large claims in the first year of operation of the 2009-10 Budget measure *An Innovation and Higher Education System for the 21st Century — Research and Development Tax Credit*. It is expected that a higher level of claims will continue across the forward estimates;
- offshore asylum seeker management costs, which are expected to be $1.3 billion higher in 2013-14 ($3.2 billion over the four years to 2015-16), reflecting updated projections of irregular maritime arrivals and the cost of regional processing centres;
- Private Health Insurance payments, which are expected to increase by $474 million in 2013-14 ($2.2 billion over the four years to 2015-16), largely reflecting stronger than expected growth in the number of people with subsidised private health cover and more people upgrading their level of health insurance. Around 55 per cent of Australians now have some form of private health cover, the largest proportion in over 20 years;
- Medicare Benefits Schedule (MBS) payments, which are expected to be $454 million higher in 2013-14 ($2.1 billion over the four years to 2015-16), reflecting growth in the use of medical services owing in part to increases in the primary care workforce and in the use of high value items on the MBS;
- official development assistance eligible expenses associated with irregular maritime arrivals, which are expected to be $431 million higher in 2013-14 ($943 million over the four years to 2015-16), reflecting updated projections of irregular maritime arrivals. The Government will cap the amount of expenditure in the ODA budget that can be reprioritised for ODA eligible IMA expenses at $375 million per year;
- payments of Family Tax Benefit (FTB), which are expected to be $276 million higher in 2013-14 ($1.0 billion over the four years to 2015-16), largely reflecting higher than previously projected recipient numbers, payment rates and top-up payments made after the lodgement of tax returns; and
- Youth Allowance payments for unemployed youth, which are expected to increase by $125 million in 2013-14 ($423 million over the four years to 2015-16), reflecting a higher than expected number of recipients continuing to receive income support.

Major reductions in expected payments in 2013-14 as a result of parameter and other variations since MYEFO, include:

- payments under the Pharmaceutical Benefits Scheme (PBS), which are expected to be $176 million lower in 2013-14 ($1.1 billion over the four years to 2015-16), reflecting the impact of price disclosure in line with the agreement reached with industry in 2010, which progressively reduces the price of some PBS medicines that are subject to competition;

- Veterans' Affairs payments, which are expected to be $75 million lower in 2013-14 ($409 million over the four years to 2015-16), reflecting a forecast natural decline in the number of beneficiaries across a range of programs;

- Tertiary Student Assistance payments, which are expected to be $376 million lower in 2013-14 ($979 million over the four years to 2015-16). This is largely related to the 2011-12 Budget measure, *Supporting Families with Teenagers*, which is designed to align the system so that FTB-A will be the primary payment for full-time students and Youth Allowance for those out of school. This has resulted in a decrease in client numbers for Youth Allowance;

- Income Support for Carers payments, which are expected to be $115 million lower in 2013-14 ($509 million over the four years to 2015-16), largely reflecting lower than expected growth in recipient numbers; and

- Low Income Supplement (LIS) payments, which are expected to be $141 million lower in 2013-14 ($497 million over four years to 2015-16). In 2012-13, the LIS had a smaller than projected customer take-up and it is forecast that low customer numbers will continue as the eligible population is expected to remain stable.

Consistent with previous budgets, the underlying cash balance has been improved by the regular draw down of the conservative bias allowance. Details of this draw down are provided in Appendix B of Statement 6, *Expenses and Net Capital Investment*.

Fiscal balance estimates

The fiscal deficit is expected to be $13.5 billion (0.8 per cent of GDP) in 2013-14, a change of $17.8 billion since the $4.3 billion surplus expected in MYEFO.

Table 7 provides a reconciliation of the variations in the fiscal balance since the 2012-13 Budget.

Table 7: Reconciliation of fiscal balance estimates

	Estimates			Projections
	2012-13	2013-14	2014-15	2015-16
	$m	$m	$m	$m
2012-13 Budget fiscal balance	**2,500**	**2,646**	**7,020**	**9,457**
Per cent of GDP	0.2	0.2	0.4	0.5
Changes from 2012-13 Budget to 2012-13 MYEFO				
Effect of policy decisions(a)	386	5,852	2,442	2,424
Effect of parameter and other variations	-1,679	-4,222	-2,539	-2,118
Total variations	-1,293	1,629	-97	305
2012-2013 MYEFO fiscal balance	**1,207**	**4,275**	**6,923**	**9,762**
Per cent of GDP	0.1	0.3	0.4	0.5
Changes from 2012-13 MYEFO to 2013-14 Budget				
Effect of policy decisions(a)(b)				
Revenue	-36	111	5,533	9,766
Expenses	1,978	382	-1,014	-3,054
Net capital investment	63	196	356	87
Total policy decisions impact on fiscal balance	-2,077	-467	6,191	12,733
Effect of parameter and other variations(b)				
Revenue	-13,742	-15,523	-15,792	-18,108
Expenses	4,413	65	2,973	-1,742
Net capital investment	1,242	1,717	605	174
Total parameter and other variations impact on fiscal balance	-19,396	-17,306	-19,370	-16,540
2013-14 Budget fiscal balance	**-20,266**	**-13,497**	**-6,255**	**5,955**
Per cent of GDP	-1.3	-0.8	-0.4	0.3

(a) Excludes secondary impacts on public debt interest of policy decisions and offsets from the Contingency Reserve for decisions taken.
(b) 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.

Changes in revenue estimates since MYEFO

Changes in accrual revenue are generally driven by the same factors as cash receipts, though differences arise where revenue raised in a given year is not received in that year.

Changes in expense estimates since MYEFO

Movements in accrual expenses over the forward estimates are broadly similar to the movements in cash payments. The key exceptions include:

- superannuation benefits, where there are differences between the timing of cash payments and accrued expenses; and
- the Natural Disaster Relief and Recovery Arrangements, where expenses are recognised in the financial year in which the disaster occurs, rather than when cash payments are made.

More detailed information on expenses can be found in Statement 6, *Expenses and Net Capital Investment*.

Net capital investment estimates

Net capital investment is broadly defined as the sale and acquisition of non-financial assets less depreciation expenses. It provides a measure of the overall growth in capital assets (including buildings and infrastructure, specialist military equipment, and computer software) after taking into account depreciation and amortisation as previously acquired assets age.

In 2013-14, net capital investment is forecast to be $1.9 billion higher than forecast in MYEFO, largely reflecting the acquisition of military equipment and the construction of Defence support facilities as outlined in the 2013 Defence White Paper. Capital investment in 2013-14 includes payments for 12 new-build EA-18G Growler aircraft, three Air Warfare Destroyers, and two Landing Helicopter Dock amphibious ships, the replacement of Australia's Armidale Class Patrol Boats and continued investment in the development of fifth-generation F-35A Joint Strike Fighter aircraft.

More detailed information on net capital investment can be found in Statement 6, *Expenses and Net Capital Investment*.

Net debt, net financial worth and net worth

The Government's medium-term fiscal strategy commitment to achieve surpluses, on average, over the medium term, assists in reducing net debt over time as a share of GDP. The medium-term fiscal strategy also commits to improving the Government's net financial worth over the medium term.

Table 8 provides a summary of Australian Government general government sector net financial worth, net worth, net debt and net interest payments.

The large write-downs in tax receipts in 2012-13 and over the forward estimates have contributed to budget deficits out to 2014-15, necessitating a higher borrowing requirement. This has, in turn, resulted in higher net debt, and lower net worth and net financial worth than forecast at MYEFO.

Table 8: Australian Government general government sector net worth, net financial worth, net debt and net interest payments

	Estimates			Projections	
	2012-13	2013-14	2014-15	2015-16	2016-17
	$b	$b	$b	$b	$b
Financial assets	242.2	264.0	286.0	308.8	343.0
Non-financial assets	110.3	112.6	115.1	116.9	119.1
Total assets	**352.5**	**376.6**	**401.1**	**425.8**	**462.2**
Total liabilities	**513.6**	**550.1**	**577.0**	**593.9**	**618.1**
Net worth	**-161.1**	**-173.5**	**-175.9**	**-168.2**	**-156.0**
Net financial worth(a)	**-271.4**	**-286.1**	**-290.9**	**-285.1**	**-275.1**
Per cent of GDP	-17.8	-17.9	-17.3	-16.1	-14.8
Net debt(b)	**161.6**	**178.1**	**191.6**	**191.2**	**185.7**
Per cent of GDP	10.6	11.1	11.4	10.8	10.0
Net interest payments	**8.2**	**7.8**	**8.4**	**9.8**	**7.7**
Per cent of GDP	0.5	0.5	0.5	0.6	0.4

(a) Net financial worth equals total financial assets minus total liabilities.
(b) Net debt equals the sum of deposits held, government securities, loans and other borrowing, minus the sum of cash and deposits, advances paid and investments, loans and placements.

Net debt for the Australian Government general government sector is estimated to be $178.1 billion (11.1 per cent of GDP) in 2013-14, $33.5 billion higher than estimated at MYEFO.

The increase in 2013-14 net debt since MYEFO is primarily driven by a higher issuance of Commonwealth Government Securities, which has been partly offset by an increase in the value of certain investments held by the Future Fund.

Australian Government net debt continues to remain low by international standards. The average net debt for the major advanced economies is expected to peak at around 92.6 per cent of GDP in 2014, whilst Australia's net debt will peak at 11.4 per cent of GDP in 2014-15. Australia's net debt position is then expected to reduce to 10.0 of GDP by 2016-17.

The changes to net debt described above also impact on net financial worth and net worth.

- Net financial worth is estimated to be –$286.1 billion in 2013-14, compared to the MYEFO estimate of -$251.5 billion.

- Net worth is forecast to be –$173.5 billion in 2013-14, compared to the MYEFO estimate of -$138.3 billion.

Improving the government's balance sheet over the medium term provides the Government with the capacity and flexibility to respond to unanticipated adverse events and longer-term challenges.

Further details on the balance sheet are outlined in Statement 7, *Asset and Liability Management.*

Medium-term fiscal outlook

Table 9 outlines the underlying cash balance and net debt across the medium term. On current projections, there is an underlying cash surplus of $21.4 billion by 2023-24.

Table 9: Medium-term projections

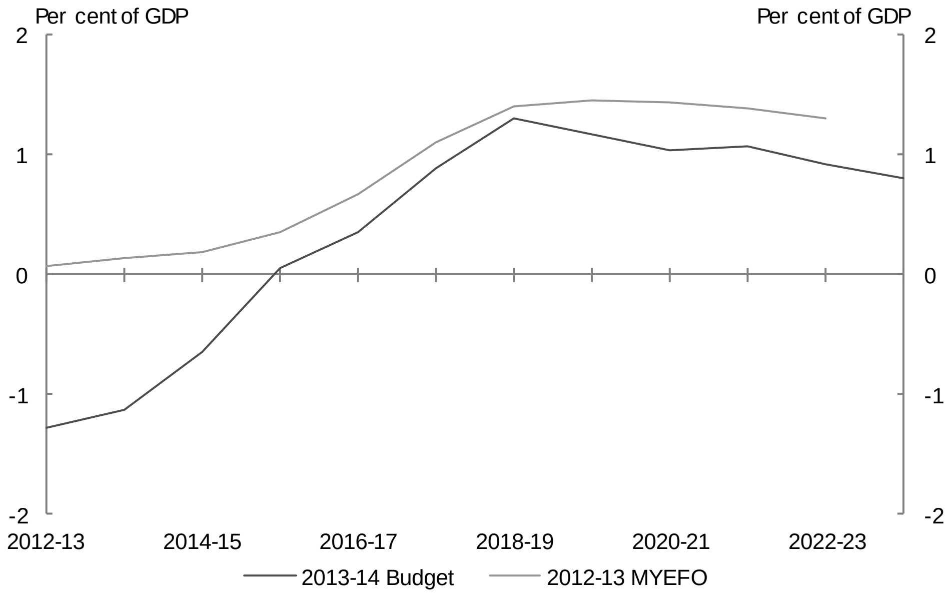
	Medium-term projections						
	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Underlying cash balance ($b)(a)	**18**	**27**	**26**	**24**	**26**	**24**	**21**
Per cent of GDP	0.9	1.3	1.2	1.0	1.1	0.9	0.8
Net Debt ($b)	**150**	**106**	**69**	**30**	**-5**	**-38**	**-68**
Per cent of GDP	7.6	5.1	3.2	1.3	-0.2	-1.5	-2.5

(a) Excludes expected net Future Fund earnings.
Note: In addition to the underlying cash balance, changes in net debt include increases in the value of the non-equity assets of the Future Fund due to earnings and capital gains, and changes in the market value of debt.

The medium term fiscal projections reflect the Government's fiscal strategy. Real growth in spending is assumed to be held to 2 per cent a year, on average, until the underlying cash surplus is at least 1 per cent of GDP and while the economy is growing at or above trend. The level of tax receipts is allowed to return naturally as the economy grows until it reaches 23.7 per cent of GDP (2018-19). That ratio is then held constant.

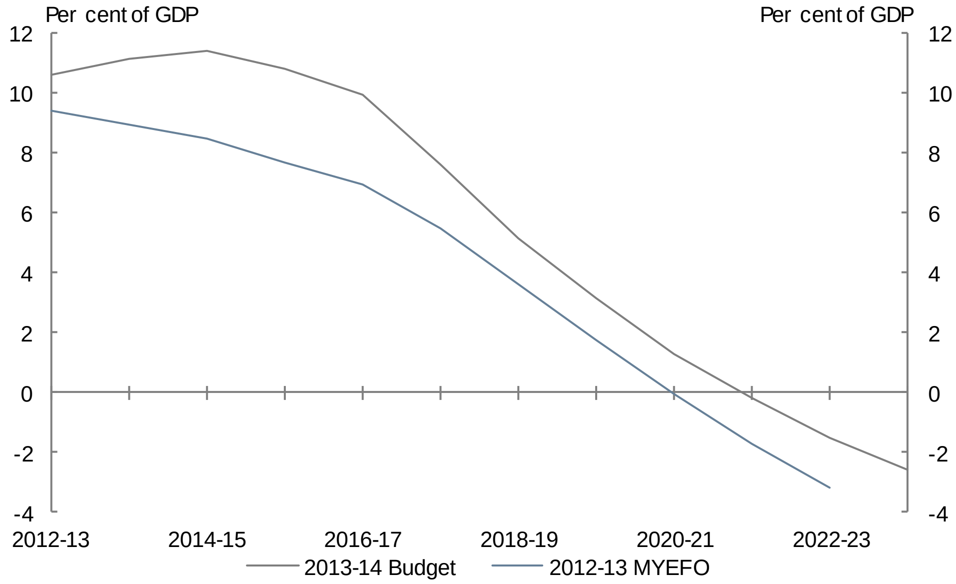
On current projections, the underlying cash balance is expected to reach 1 per cent of GDP in 2018-19, one year later than projected at MYEFO (Chart 3). Net debt is projected to return to zero in 2021-22, one year later than projected at MYEFO (Chart 4). This delay is mainly attributable to the weaker outlook for the underlying cash balance.

Chart 3: Underlying cash balance projected to 2023-24



Source: Treasury projections.

Chart 4: Government net debt projected to 2023-24



Source: Treasury projections.

APPENDIX A: SENSITIVITY OF BUDGET ESTIMATES TO ECONOMIC DEVELOPMENTS

The estimates contained in the 2013-14 Budget are based on forecasts of the economic outlook. Changes to the economic assumptions underlying the estimates will impact on receipts and payments, and hence the size of the underlying cash balance.

This section examines the effects on receipts and payments of altering some of the key economic assumptions. Tables A2 and A4 illustrate the sensitivity of key components of receipts and payments to possible variations in the economic outlook. The two scenarios considered are:

- Scenario 1: a 1 per cent reduction in nominal GDP owing to a fall in the terms of trade.
- Scenario 2: a 1 per cent increase in real GDP driven by an increase in labour productivity and labour force participation, with each contributing equally.

The economic scenarios provide a rule of thumb indication of the impact on receipts, payments and the underlying cash balance of changes in the economic outlook. They represent a partial economic analysis only and do not attempt to capture all the economic feedback and other policy responses related to changed economic conditions. In particular, the analysis assumes no change in the exchange rate, interest rates or policy over the forecast period. The impact of the two scenarios on the economic parameters would be different if the full feedback response on economic variables and likely policy actions were taken into account. The analysis does not aim to provide an alternative picture of the economic forecasts under these scenarios, but instead gives an indication of the sensitivity associated with different components of receipts and payments to changes in the economy. As such, the changes in the economic variables and their impact on the fiscal outlook are merely illustrative.

The impacts shown in the tables below are broadly symmetrical. That is, impacts of around the same magnitude, but in the opposite direction, would apply if the terms of trade were to increase or if real GDP were to decrease.

Scenario 1

The first scenario involves a permanent fall in world prices of non-rural commodity exports in 2013-14 consistent with a fall in the terms of trade of around 4 per cent, which causes a 1 per cent fall in nominal GDP by 2014-15. The sensitivity analysis evaluates the flow-on effects on the economy, the labour market and prices. The impacts in Table A1 are stylised and refer to per cent deviations from the baseline levels of the economic parameters.

Table A1: Illustrative impact of a permanent non-rural commodity price fall consistent with a 1 per cent fall in nominal GDP by 2014-15 (per cent deviation from the baseline level)

	2013-14 per cent	2014-15 per cent
Real GDP	0	- 1/4
Non-farm GDP deflator	- 3/4	- 3/4
Employment	- 1/4	- 1/2
Wages	0	- 1/4
CPI	0	- 1/4
Company profits	-3	-3
Consumption	- 1/4	- 1/2

Assuming no change in exchange rates or interest rates, the fall in export prices leads directly to a lower non-farm GDP deflator (from the export component of GDP) and lower domestic incomes. Lower domestic incomes cause both consumption and investment to fall, resulting in lower real GDP, employment and wages. The fall in aggregate demand puts downward pressure on domestic prices.

In reality, a fall in the terms of trade would be expected to lead to a fall in the exchange rate, although the magnitude is particularly uncertain in the short term. In the event of a fall in the exchange rate, the impacts on the external sector would dampen the real GDP effects, and there would be some offsetting upward pressure on domestic prices.

Given these assumptions, the overall impact of the fall in the terms of trade is a decrease in the underlying cash balance of around $3.1 billion in 2013-14 and around $5.7 billion in 2014-15 (see Table A2).

Table A2: Illustrative sensitivity of the budget balance to a 1 per cent decrease in nominal GDP due to a fall in the terms of trade

	2013-14 $b	2014-15 $b
Receipts		
Individuals' and other withholding taxation	-0.6	-1.4
Superannuation funds taxation	-0.1	-0.3
Company tax	-2.0	-3.1
Resource rent taxes	-0.3	-0.5
Goods and services tax	-0.1	-0.2
Excise and customs duty	0.0	-0.1
Other taxation	0.0	0.0
Total receipts	**-3.1**	**-5.6**
Payments		
Income support	-0.1	-0.2
Other payments	0.0	0.1
Goods and services tax	0.1	0.2
Total payments	**0.0**	**0.1**
PDI	0.0	-0.2
Underlying cash balance impact	**-3.1**	**-5.7**

On the receipts side, a fall in the terms of trade results in a fall in nominal GDP which reduces tax collections. The largest impact is on company tax receipts as the fall in export income decreases company profits. Owing to lags in the tax system, the effect on company tax is larger in 2014-15. Lower company profits are assumed to flow through to lower Australian equity prices, therefore reducing capital gains tax from individuals, companies and superannuation funds.

The weaker economy results in lower aggregate demand, which flows through to lower employment and wages, reducing individuals' income tax receipts. The decrease in disposable incomes leads to lower consumption, which in turn results in a decrease in GST receipts (decreasing GST payments to the states by the same amount) and other indirect taxes.

On the payments side, a significant proportion of government expenditure is partially indexed to movements in costs (as reflected in various price and wage measures). Some forms of expenditure, in particular income support payments, are also driven by the number of beneficiaries.

The overall estimated expenditure on income support payments (including pensions and allowances) increases in both years because of a higher number of unemployment benefit recipients. The increase in unemployment benefits in 2014-15 is partly offset by reduced expenditure on pensions and allowances reflecting lower growth in benefit rates resulting from lower wages growth and lower inflation. At the same time other payments linked to inflation fall in line with the reduced growth in prices.

The reduction in the underlying cash balance results in a higher borrowing requirement and a higher public debt interest cost.

As noted above, under a floating exchange rate, the fall in the exchange rate would damp the effects of the fall in the terms of trade on real GDP, meaning the impact on the fiscal position could be substantially more subdued. Also, to the extent that the fall in the terms of trade is temporary rather than permanent, the impact on the economic and fiscal position would be more subdued.

Scenario 2

The second scenario involves a permanent 0.5 per cent increase in both the participation rate and labour productivity, resulting in a 1 per cent increase in real GDP in 2013-14. Once again, the sensitivity analysis evaluates the flow-on effects on the economy, the labour market and prices. The impacts in Table A3 are stylised and refer to per cent deviations from the baseline levels of the parameters.

The 1 per cent increase in real GDP increases nominal GDP by slightly less but the magnitude of the effects on receipts, payments and the underlying cash balance differ from the first scenario because different parts of the economy are affected in different ways.

Table A3: Illustrative impact of an ongoing equal increase in both labour productivity and participation consistent with a 1 per cent increase in real GDP in 2013-14 (per cent deviation from the baseline level)

	2013-14 per cent	2014-15 per cent
Nominal GDP	3/4	3/4
Non-farm GDP deflator	- 1/4	- 1/4
Employment	1/2	1/2
Wages	1/4	1/4
CPI	- 1/4	- 1/4
Company profits	1 3/4	1 3/4
Consumption	1	1

The increases in labour force participation and labour productivity have the same impact on output, but different impacts on the labour market. Higher productivity leads to higher real GDP and higher real wages, while an increase in the participation rate increases employment and real GDP. Imports are higher in this scenario, reflecting higher domestic incomes.

Since the supply side of the economy expands, inflation falls relative to the baseline. The lower domestic prices make exports more attractive to foreigners, with the resulting increase in exports offsetting higher imports, leaving the trade balance unchanged. The exchange rate is assumed to be unchanged.

The overall impact of the increase in labour productivity and participation is an increase in the underlying cash balance of around $3.1 billion in 2013-14 and around $4.1 billion in 2014-15 (see Table A4).

Table A4: Illustrative sensitivity of the budget balance to a 1 per cent increase in real GDP due to an equal increase in both productivity and participation

	2013-14 $b	2014-15 $b
Receipts		
Individuals' and other withholding taxation	1.7	1.6
Superannuation funds taxation	0.1	0.3
Company tax	1.2	1.8
Goods and services tax	0.5	0.5
Excise and customs duty	0.2	0.2
Other taxation	0.0	0.0
Total receipts	**3.7**	**4.4**
Payments		
Income support	-0.1	-0.1
Other payments	0.0	0.1
Goods and services tax	-0.5	-0.5
Total payments	**-0.6**	**-0.5**
PDI	0.0	0.2
Underlying cash balance impact	**3.1**	**4.1**

On the receipts side, individuals' income tax collections increase because of the rise in the number of wage earners and, additionally, higher real wages. The stronger labour market also increases tax collections from superannuation funds because contributions (including compulsory contributions) are higher. The increase in personal incomes leads to higher consumption which results in an increase in GST receipts (with the corresponding receipts passed on in higher GST payments to the states). In addition, the stronger economy results in higher levels of corporate profitability, increasing company taxes.

On the payments side, overall estimated expenditure on income support payments (including pensions and allowances) is slightly higher primarily reflecting growth in benefit rates through their indexation to wages. Lower inflation has a partially offsetting effect.

On balance, the rise in estimated tax collections is only partially offset by increased payments. This improves the underlying cash position, which results in a lower borrowing requirement and lower public debt interest cost.

To the extent that the increases in productivity and participation are temporary rather than permanent, the impact on the economic and fiscal position would be more subdued.

STATEMENT 4: FISCAL POLICY IN THE CURRENT ECONOMIC ENVIRONMENT

Sound fiscal policy — as embodied in the Government's medium-term fiscal strategy — involves ensuring that fiscal settings are sustainable over the medium term, while allowing the fiscal position to vary in response to economic conditions in the near term so as to contribute to macroeconomic stability.

This Statement highlights the contrast in economic and fiscal circumstances between the pre- and post-GFC periods. Budget surpluses in the years leading up to the GFC were supported by temporary factors that boosted revenue growth, including the high terms of trade, an economy operating for a time above sustainable levels and buoyant asset prices. Temporarily high revenues were used to fund spending increases and tax reductions, weakening the medium-term budget position.

In contrast, the period since the GFC has been characterised by relatively weak growth in nominal GDP and a decline in the tax-to-GDP ratio, which reflects, in particular, an increased share of profits coming from the resources sector and a large fall in capital gains tax. Together, these factors have reduced the Government's tax receipts and created a more challenging fiscal environment.

Recent sizeable revenue write-downs have increased the fiscal adjustment needed to return the budget to surplus. In the current environment, offsetting substantial write-downs in the near term would risk depressing economic growth and undermining jobs growth. The Government's plan to return the budget to surplus, including the long-term savings measures announced in this Budget, strengthens fiscal sustainability on a timeframe that does not risk undermining economic growth or threatening jobs.

This Statement shows that Australia remains well-placed in terms of fiscal sustainability, particularly in comparison to most other advanced economies, reinforced by the Government's clear and credible plan to return the budget to surplus. The budget deficit at present is low as a share of GDP, with the budget projected to return to surplus ahead of most advanced economies. Net government debt as a share of GDP is lower than for almost all other advanced economies, and the net interest burden is also relatively low. This highlights that the Government is striking the right balance between reinforcing fiscal sustainability over the medium term and limiting adverse impacts on economic growth and jobs in the near term.

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STATEMENT 4: FISCAL POLICY IN THE CURRENT ECONOMIC ENVIRONMENT

INTRODUCTION

The global financial crisis (GFC) and its repercussions have focussed attention around the world on the conduct of fiscal policy: in particular, the appropriate balance between short-term support for the economy and medium-to-long term sustainability considerations.

Fiscal objectives are not ends in themselves. They matter because of their implications for employment, incomes and wellbeing. In essence, good fiscal policy entails allowing the fiscal position to vary in response to economic conditions in the near term, while ensuring fiscal settings are sustainable over the medium-to-long term.

By allowing the budget balance to vary with economic conditions, fiscal policy can complement monetary policy in keeping the economy on a stable growth path, with low unemployment and inflation. This will normally occur through the automatic fiscal stabilisers, although a discretionary response may also be warranted in exceptional circumstances.

Sustainability also matters. Sustainable fiscal settings preserve governments' flexibility to use fiscal policy to counter large negative shocks to the economy while keeping governments' borrowing costs low. Maintaining fiscal sustainability over time also allows more stable tax and spending policies, and ensures that future generations do not have to bear the burden of abrupt adjustments.

Although Australia's strong fiscal position means that we do not face a significant tension between these two considerations, many other advanced economies are currently struggling to find the right balance. They have experienced prolonged economic weakness (and consequent weakness in tax receipts) since the GFC, with non-fiscal means of stimulating growth limited because policy interest rates cannot be reduced further or, for individual euro members, because they have no independent monetary policy and exchange rate. Coupled with weak or negative economic growth and high unemployment, this normally provides a strong case for stimulatory fiscal policy.

However, a lack of fiscal discipline over a long period before the crisis, combined with the ongoing fiscal effects of the crisis, have left many other advanced economies with a legacy of very high levels of government debt. These economies also face looming fiscal pressures from population ageing over coming decades. Fears about sustainability have induced many governments to undertake substantial fiscal tightening, often over very short time-frames. This has proved to be strongly pro-cyclical, exacerbating existing economic weakness, which has in turn hampered achievement of fiscal consolidation objectives.

The recent international experience offers three key lessons for fiscal policy. First, the fiscal position needs to be strengthened sufficiently during good times to allow fiscal policy to respond appropriately to adverse shocks without threatening sustainability. Second, it is important to recognise and manage contingent fiscal risks, such as those stemming from explicit or implicit financial sector guarantees. Third, it is important that governments outline a credible plan to restore sound public finances following large adverse shocks, while varying the pace of fiscal consolidation in response to economic circumstances. This means balancing the requirement to consolidate against the impacts of consolidation — recognising that, in some circumstances, emergency consolidation may be needed to avoid broader economic and fiscal crises. In other cases, too rapid a consolidation may be counterproductive and undermine both full employment and debt reduction goals.

Australia is much better placed to achieve the right balance in setting fiscal policy, due to a track record of prudent fiscal policy, robust financial regulation and strong macroeconomic management and performance, in particular during and since the GFC. The medium-term focus on fiscal sustainability has provided for short-term responses to shocks. Australia's resulting low debt levels, combined with a credible strategy to return the budget to surplus, ensure we have considerable flexibility to respond to changing economic conditions. Nonetheless, retaining that flexibility will require ongoing structural improvement to the budget over the years ahead, as economic conditions permit.

This Statement reports on the sustainability of the Government's fiscal position under a range of internationally-recognised metrics and outlines how the Government intends to maintain the right balance in setting fiscal policy over the short and medium term. The key conclusion is that Australia remains well-placed in terms of fiscal sustainability, particularly in comparison to most other advanced economies, reinforced by the Government's clear and credible plan to return the budget to surplus.

MEDIUM-TERM FISCAL STRATEGY: UNDERLYING PRINCIPLES AND RATIONALE

A key element of the Government's medium-term fiscal strategy is to achieve budget surpluses, on average, over the medium term. This objective allows flexibility to respond to economic conditions in the short term, while maintaining fiscal sustainability over the medium term. Adhering to the surplus objective helps to ensure that net financial worth improves over the medium term, which is another element of the strategy. The strategy also commits to keeping taxation as a share of GDP below its 2007-08 level, on average, so that the surplus objective is achieved through expenditure restraint rather than an increasing tax burden over time.

Flexibility to respond to economic conditions in the short term

The medium-term objective of achieving budget surpluses on average allows flexibility to respond to cyclical fluctuations in economic conditions. Although monetary policy normally plays the primary role in macroeconomic stabilisation, fiscal policy has an important complementary role. There are three aspects to this role.

First, in normal circumstances, fiscal policy plays a counter-cyclical role primarily through the automatic fiscal stabilisers — fluctuations in tax revenue and spending that result from temporary variations in output and employment. It is generally desirable to accommodate the automatic stabilisers, rather than seeking to offset their fiscal impacts, because:

- they respond automatically to dampen economic fluctuations, avoiding the lags associated with discretionary policy (both fiscal and monetary); and
- they should have minimal effect on the medium-term fiscal position as they unwind automatically once the economy returns to full employment.

Second, in circumstances where the economy is hit by a large shock and monetary policy cannot respond with sufficient speed and force, a discretionary fiscal response may also be warranted. This was the case during the GFC, when a large fiscal stimulus was implemented to support the economy. Maintaining this capacity to respond requires a foundation of fiscal sustainability, including moderate government debt levels. Fiscal stimulus measures can deliver lasting benefits beyond the short-term boost to the economy if significant long-term unemployment — and the associated skill atrophy — can be avoided, and if the measures expand the economy's supply potential, as was the case with the infrastructure spending elements of the Government's stimulus measures during the GFC.

Third, in circumstances where substantial fiscal adjustment is needed to maintain sustainability — for instance, due to unanticipated long-lived changes in the economy that adversely affect the budget — it is desirable that the speed of this adjustment and its composition is set to limit adverse impacts on macroeconomic stability. That is, the implications for economic and employment growth need to be considered when contemplating the pace of adjustment — adjustment that occurs too slowly can be as much a threat to medium-term employment and growth as adjustment that occurs too rapidly.

In Australia's case, low levels of government debt provide the flexibility to return the budget to surplus on a timeframe that does not undermine economic growth or threaten jobs. Australia's flexible exchange rate also means that the Reserve Bank can set interest rates that are appropriate to conditions in the Australian economy. Combined with the relative strength of the Australian economy, this means that not only does Australia have a much smaller fiscal adjustment task than most other advanced economies following the GFC, but also that the impact of fiscal consolidation on economic growth (the so-called 'fiscal multipliers') are likely to be smaller, reinforcing our enviable position internationally (see Box 1).

Box 1 : Fiscal consolidation and fiscal multipliers

The appropriate pace of fiscal consolidation in the period since the GFC has been a contentious issue internationally. This is particularly the case for countries with high government debt but also weak economic growth and high unemployment.

One point of contention has been around the size of fiscal multipliers. There is now considerable evidence that fiscal multipliers — which measure the impact on economic output of discretionary changes in fiscal policy — are likely to be considerably larger in Europe, Japan and the US than in Australia at present (Blanchard and Leigh 2013).

There are three reasons to expect multipliers to remain high in Europe, Japan and the US. First, after deep, prolonged recessions, their economies have considerable unused productive capacity. In these circumstances, fiscal tightening can normally be expected to have a large impact on economic activity by reducing demand further below the economy's productive potential, raising the prospect of so-called hysteresis effects. Second, with nominal short-term interest rates already close to zero and credit channels impaired, there is limited scope for monetary policy to offset the contractionary impacts of fiscal tightening. Third, with many economies simultaneously undertaking fiscal contraction, there is less scope for contractionary effects of fiscal policy to be offset by exchange rate depreciation leading to increased net exports.

So what is the appropriate course of action? The IMF advises in its April 2013 *Fiscal Monitor* that, while countries with limited access to financing have no choice but to front-load fiscal adjustment, the most appropriate course of action for countries that retain the capacity to borrow is to undertake a path of gradual but sustained adjustment that aims at steady progress over the medium term toward a clearly-defined fiscal objective. The Government's plan to return to surplus at a measured pace is consistent with this advice. Box 2 highlights the importance in this regard of articulating a clear and credible medium-term objective for fiscal policy.

The IMF also acknowledges that even with modest up-front adjustment it will be essential to ensure that other policies remain as supportive as possible in order to limit output and employment costs. In particular, monetary policy should remain accommodative for the foreseeable future, and structural policies to expand the supply side of the economy and promote growth should also be pursued. It is also desirable that the composition of fiscal adjustment be designed to mitigate adverse impacts on the most vulnerable, consistent with the Australian Government's approach.

Sustainability over the medium term

The medium-term objective of budget surpluses on average also ensures that fiscal policy remains sustainable, preserving the fiscal space needed for flexibility. Indeed, the objective is tougher than the commonly-used international benchmark for sustainability — that government debt is stabilised as a share of GDP at some level that can be serviced over time. Achieving surpluses on average means that the net debt position improves over time.

The Australian Government's low net debt means capacity to service debt is not an issue. At the expected peak of 11.4 per cent of GDP in 2014-15, the annual net interest burden is only 0.5 of a percentage point of GDP. This is around one-quarter of the G-7 average, even though interest rates are higher in Australia than in the major advanced economies due to the relative strength of our economy.

Nonetheless, consistent with the medium-term fiscal strategy, there are good reasons for Australia to aim higher than just stabilising the debt-to-GDP ratio. This is consistent with a broader concept of sustainability that encompasses not only the government's capacity to service its liabilities into the future, but also its ability to do so without adverse effects on economic performance and intergenerational equity in the face of an ageing population.

First, Australia's reliance on foreign capital is often seen as exposing us to a somewhat higher degree of external vulnerability, notwithstanding that we benefit from importing capital to finance productive investment in excess of domestic saving. This perceived vulnerability is mitigated by a number of factors; including a strong and well-regulated financial system, low public debt, and the fact that our external borrowing is largely in our own currency. Indeed, recent years have seen a material improvement in the robustness of our external funding mix, characterised by an increasing proportion of direct equity investment and a substantial lengthening of the maturity profile of our external debt (see Box 5 in Budget Statement 2). Nevertheless, it is prudent for government to seek to offset at least part of the private sector saving-investment gap by running surpluses over time, given that businesses and households are unlikely to factor their contributions to aggregate risk into their decisions.

Second, future generations will be better placed to deal with longer-term budgetary pressures from population ageing and health costs if we leave them a stronger government balance sheet and sustainable fiscal settings. This is appropriate in terms of intergenerational equity because these pressures partly reflect the costs of future benefits that the current generation will receive. This argument should not be overstated, however, as future generations will also have the benefit of higher standards of living, in part a consequence of investments in technology and ideas made by current and past generations.

Third, Australia's terms of trade are expected to decline from current high levels over time. The budget may also be more exposed to volatility in commodity markets because an expanded resources sector now accounts for a larger proportion of the tax base. This also means that the budget is more exposed to developments in emerging market economies, whose rising demand for minerals and energy has been the key factor driving the rise in the terms of trade and the resources investment boom. While commodity prices remain high this reinforces the case for improving the government's balance sheet over time, both for precautionary reasons and as a way of spreading some of the benefits to future generations.

More generally, improving the government's balance sheet over time provides insurance against unforeseeable adverse shocks in a global environment that may be more volatile than that experienced in the period before the GFC. In addition to allowing automatic stabilisers to be accommodated in the event of adverse shocks, this will allow scope for discretionary stimulus if required.

Box 2: Fiscal frameworks in other advanced economies

The sharp rise in public debt levels across many advanced economies in the aftermath of the GFC has highlighted the importance of clear and credible medium-term fiscal frameworks for retaining market confidence that public finances will remain on a sustainable footing. The existence of such a framework was one of Australia's key strengths during the GFC.

The design and application of medium-term fiscal strategies varies across the advanced economies. The United Kingdom, New Zealand and Germany provide other examples of the use of medium-term fiscal strategies, but not all countries have such frameworks. Furthermore, the application of some medium-term strategies can lead to policies that are not well attuned to economic conditions.

The United Kingdom's fiscal strategy involves a forward-looking target to achieve cyclically-adjusted current balance by the end of a rolling, five-year forecast period (the current balance is the budget balance excluding investment spending, but including depreciation). It also specifies that public sector net debt as a share of GDP should be falling by 2015-16.

New Zealand's 2012 Fiscal Strategy Report sets a short-term objective of returning the budget to surplus in 2014-15, and a long-term objective of bringing net government debt down to no higher than 20 per cent of GDP by 2020.

Germany has a so-called 'debt brake' legislated in its constitution, which mandates that from 2016 onwards the federal government's cyclically-adjusted budget deficit in any given year cannot exceed 0.35 per cent of GDP.[1] The debt brake will apply from 2020 onwards for Germany's regional governments (Länder), who will be required to have structurally-balanced budgets.

On the other hand, some other advanced economies have no articulated medium-term fiscal strategy, in particular the United States and Japan. The IMF has expressed concern in recent years about the absence in both countries of medium-term fiscal consolidation strategies.

FISCAL POLICY IN CHALLENGING TIMES

The Australian economy has come through an extraordinary decade in good shape: the terms of trade boom starting in the early 2000s and the GFC starting in 2008 are amongst the biggest positive and negative economic shocks Australia has faced since the 1930s depression. These challenges have underscored the importance of a fiscal strategy that is flexible enough to assist macroeconomic stabilisation in the short term,

1 It is worth noting that 'cyclically-adjusted' refers to the business cycle in the German economy, rather than in the whole euro area economy. This has implications for the overall stance of fiscal policy in the euro area when there are asymmetric shocks.

while also maintaining a strong focus on medium-to-longer term sustainability in an environment in which the budget is subject to large temporary influences.

Strong global growth and rising demand for Australia's commodity exports from China and other emerging market economies drove a boom in Australia's terms of trade from around 2003-04, with the terms of trade hitting a 150 year high in the September quarter of 2011. The associated boost to national income and resources investment starting in the middle of the decade led to strong growth in demand in an economy that was already close to full capacity. This delivered a massive surge in tax revenues up until the GFC: parameter and other variations increased revenue for 2007-08 by $79 billion (equivalent to around 7 per cent of GDP) between the 2003-04 and 2008-09 Budgets.

In this environment the appropriate role of fiscal policy is twofold:

- to complement monetary policy in containing inflationary pressures, at least by allowing the automatic fiscal stabilisers to increase budget surpluses; and
- to maintain the structural budget position in light of a surge in revenue that could be expected to be at least partly temporary, given that supply responses could be expected to push down commodity prices over time.

Budget surpluses did increase from 0.9 per cent of GDP in 2003-04 to 1.7 per cent of GDP in 2007-08. However, this increase was only a fraction of the surge in revenues, which was largely channelled back into the economy, through increased government spending and tax cuts. From the 2004-05 Budget to the 2007 Pre-Election Economic and Fiscal Outlook, parameter and other variations added $391 billion to expected budget surpluses over the period 2004-05 to 2010-11, while policy decisions reduced surpluses by $314 billion over the same period (Laurie and McDonald 2008).[2]

In hindsight, while Australia's fiscal position in 2007-08 was clearly strong by international standards, the structural position was less robust than the headline numbers implied as these were based on economic, commodity and financial market conditions that were not sustained and are unlikely to be repeated in the foreseeable future. Tax cuts and new spending, funded by temporary increases in the terms of trade and capital gains, led to deterioration in the structural budget position in the lead-up to the GFC. Moreover, by not allowing budget surpluses to increase significantly as revenues surged, government decisions prior to the GFC meant that interest rates had to be higher than otherwise to control inflation in an economy that was showing signs of over-heating.

2 Some of this estimated gain from parameter and other revisions was not realised because of the impacts of the global financial crisis from 2008-09.

Against this background, the environment for fiscal policy was dramatically transformed from late 2008 by the GFC, which had a significant and immediate impact on tax receipts. The automatic revenue impact of weaker domestic and global growth, combined with weaker asset prices, is estimated to have reduced the budget balance, relative to expectations at the time of the 2008-09 Budget, by $23 billion in 2008-09, $49 billion in 2009-10 and $55 billion in 2010-11 (Budget Statement 4 2009-10). The direct impact of stimulus measures deployed to support demand also detracted from the fiscal position, albeit only temporarily.

The combination of the Government's discretionary fiscal stimulus and automatic fiscal stabilisers — together with a considerable easing of monetary policy, a large fall in the exchange rate, the resilience of our emerging Asian trading partners and measures to support the financial sector — was able to limit the adverse effects of the GFC on Australia. Treasury estimates indicate that, without the stimulus, the Australian economy would have fallen into recession in this period, resulting in a much larger rise in unemployment (Budget Statement 2 2010-11).

The direct fiscal impacts of the stimulus measures in the short-term, therefore, need to be set against the substantial fiscal impacts of the deeper economic downturn that would otherwise have occurred — as well as the broader social impacts of recession and higher unemployment. Such an outcome would have affected the fiscal position not only in the short term, but also in the medium-to-long term because deep recessions have lasting impacts on the economy's supply potential, in particular through increased long-term unemployment and the associated loss of skills.

As the economy has recovered, the key task for fiscal policy has been to return the budget to surplus, consistent with the medium-term fiscal strategy. The temporary stimulus measures have been unwound and spending discipline imposed, with the average payment to GDP ratio over the five years from 2012-13 lower than the average payment to GDP ratio over the previous thirty years. However, this has been occurring in an economic and revenue environment far less favourable than in the period before the GFC, and also less favourable than in some previous fiscal consolidation cycles.

Chart 1 shows that nominal GDP since the GFC has so far grown more slowly than in comparable periods in the 1980s and the 2000s, with only the 1990s cycle exhibiting weaker nominal growth. This gap is expected to widen further over the forward estimates period. By 2016-17, nominal GDP growth in the current cycle is expected to be around 75 percentage points less than over the equivalent period in the 1980s and 30 percentage points less than in the 2000s.[3] As will be detailed in the next section, weaker nominal GDP growth has been reflected in weaker growth in government revenue.

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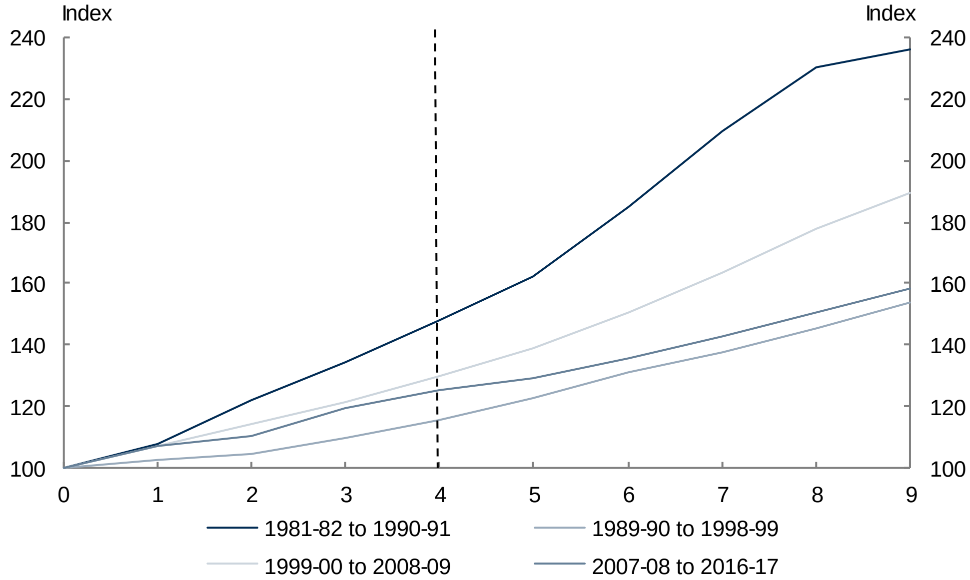
3 Nominal GDP growth was particularly strong in the 1980s, which preceded the establishment of the current low inflation regime, consistent with the 2 to 3 per cent inflation target.

Chart 1: Nominal GDP from previous economic cycle peak



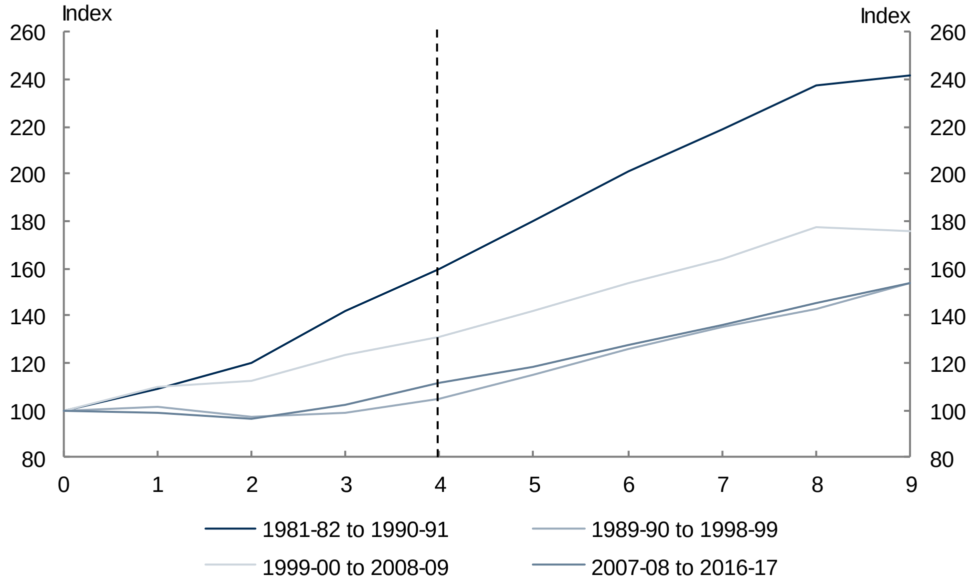
Note: Cyclical peaks (year 0) are based on real GDP relative to a HP filter trend. Current period figures are forecasts/projections from 2012-13 (year 5) onward.
Source: ABS Cat. No. 5206.0 and Treasury.

Importantly, while periods of below-trend real GDP growth can be expected to be offset over time by above-trend periods as the economy returns to full employment, the same cannot be assumed for nominal GDP as there is no mechanism to return prices to any given level following a period of weak price growth.

Weak nominal GDP growth and a reduction in the tax take per dollar of income have resulted in significantly less revenue growth in the post-GFC period than in the 1980s and 2000s, similar to what occurred in the 1990s; a period that saw a marked step-down in inflation relative to prior decades (Chart 2). Less automatic improvement to the budget from revenue has made fiscal consolidation more challenging because larger policy adjustments are needed to achieve the same budget outcome.

Fiscal consolidation in the 1980s, in particular, was made much easier by high inflation, which meant that the budget gained considerably from fiscal drag — the additional tax revenue that results from growth in nominal incomes and the progressivity of the personal income tax scales. In the low inflation environment of the 1990s and now, fiscal drag is much reduced. The fact that weak revenue growth has made fiscal consolidation more challenging is a notable point of commonality between the current period and the 1990s. While current economic circumstances are in many ways very different to the early 1990s, when the economy experienced a deep recession, that period also saw a decline in the terms of trade and weak growth in domestic prices, as well as a significant fall in the tax-to-GDP ratio; factors that have affected revenues recently (as will be shown in the next section).

Chart 2: Receipts from previous economic cycle peak



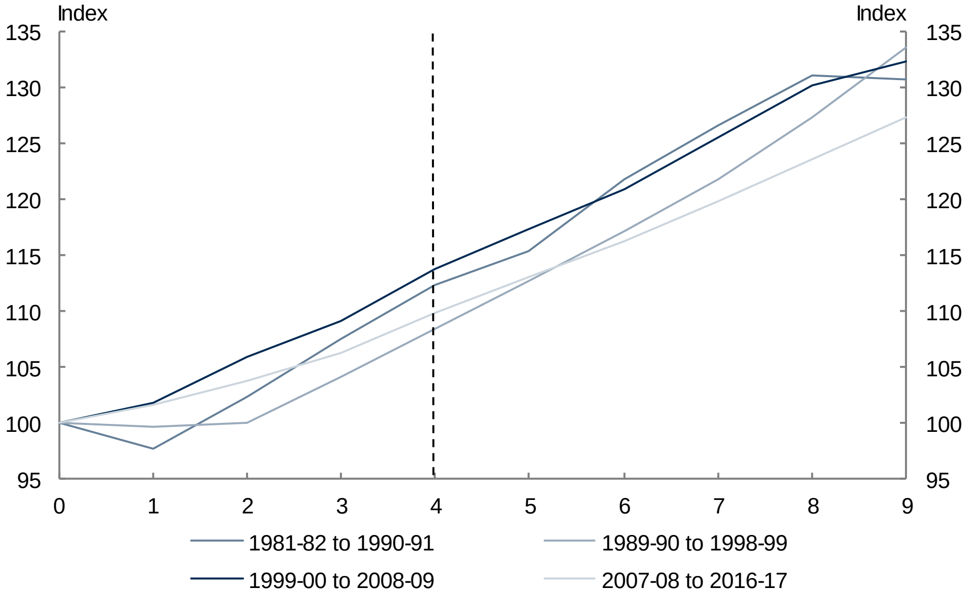
Note: Cyclical peaks (year 0) are based on real GDP relative to a HP filter trend. Current period figures are forecasts/projections from 2012-13 (year 5) onward.
Source: Treasury.

While weaker revenue growth has increased the fiscal adjustment required to return to surplus, other developments have meant that the economy also faces more challenges in absorbing such an adjustment. In normal circumstances, the contractionary impacts of fiscal consolidation can be absorbed because the economy emerges from the preceding downturn with considerable momentum. Previous cyclical downturns have been followed by an extended period of above-trend real GDP growth.

While the Australian economy has performed impressively in the post-GFC period, in marked contrast to most other advanced economies, it is not expected to grow as strongly as in previous fiscal consolidation episodes in Australia in the 1980s and 1990s. This reflects in part the relatively moderate slowdown in the Australian economy during the global downturn, with Australia virtually alone among the advanced economies in avoiding recession. This meant that we did not come out of the GFC with substantial spare capacity, in contrast to the 1980s and 1990s episodes.

Further, the extraordinary nature of the GFC has meant that the economy has faced significant post-GFC headwinds arising from less buoyant global growth, the high Australian dollar and deleveraging by companies and households — a combination of factors that was not present in previous episodes. Chart 3 shows that growth in real GDP from the previous cyclical peak (which takes into account the depth of the downturn) is expected to be lower over the current period than in the previous episodes.

Chart 3: Real GDP from previous economic cycle peak



Note: Cyclical peaks (year 0) are based on real GDP relative to a HP filter trend. Current period figures are forecasts/projections from 2012-13 (year 5) onward.
Source: ABS Cat. No. 5206.0 and Treasury.

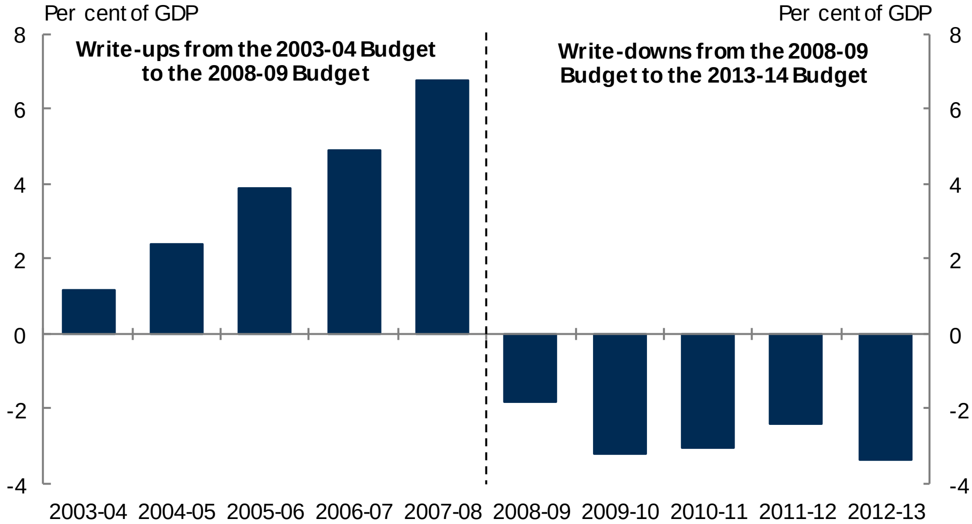
Analysis of recent revenue weakness

The challenges presented by post-GFC revenue weakness for fiscal policy are highlighted by the extent of downward revisions to tax receipt forecasts since the 2010-11 Budget, when a surplus in 2012-13 was initially projected. Tax receipts for 2012-13 are now expected to be $27 billion (around 8 per cent) lower than projected at the time of the 2010-11 Budget, and $23 billion lower in 2013-14. Importantly, tax receipts are similarly lower across the forward estimates, with downward revisions to projected tax receipts since the 2010-11 Budget amounting to $92 billion over the six years to 2015-16.

This is in marked contrast to the pre-GFC period, when revenues were consistently and repeatedly revised up (Chart 4). Over the five years leading up to the GFC, revenue write-ups from parameter and other variations from the 2003-04 Budget to the 2008-09 Budget totalled around $200 billion.[4] Over the five years since the 2008-09 Budget revenue write-downs have amounted to almost $200 billion.

4 'Parameter and other variations', as shown in Table 5 in Budget Statement 3, capture all factors affecting receipts other than policy decisions.

Chart 4: Revenue write-ups and write-downs



Note: Revenue revisions due to parameter and other variations (excluding policy decisions). Left-hand side includes only revisions after 2003-04 Budget. Right-hand side includes only revisions after 2008-09 Budget. Dotted line marks the advent of the GFC.
Source: Treasury.

Weaker nominal GDP

These write-downs to the tax receipt forecasts and projections are due primarily to downward revisions to nominal GDP growth and weaker capital gains tax (CGT) receipts. Nominal GDP broadly captures the level of income in the economy, which is the primary determinant of government revenues.[5]

As discussed in more detail in Budget Statement 2, recent weakness in nominal GDP growth reflects the unusual combination of lower global prices for Australia's key commodity exports and a persistently high Australian dollar, which has contributed to weaker-than-anticipated growth in domestic prices. With commodity prices expected to fall further and domestic inflation to remain subdued, the recent weakness translates into downward revisions to the level of nominal GDP across the forward estimates. Nominal GDP levels across the forward estimates are around 4 per cent lower than projected at the time of the 2010-11 Budget.

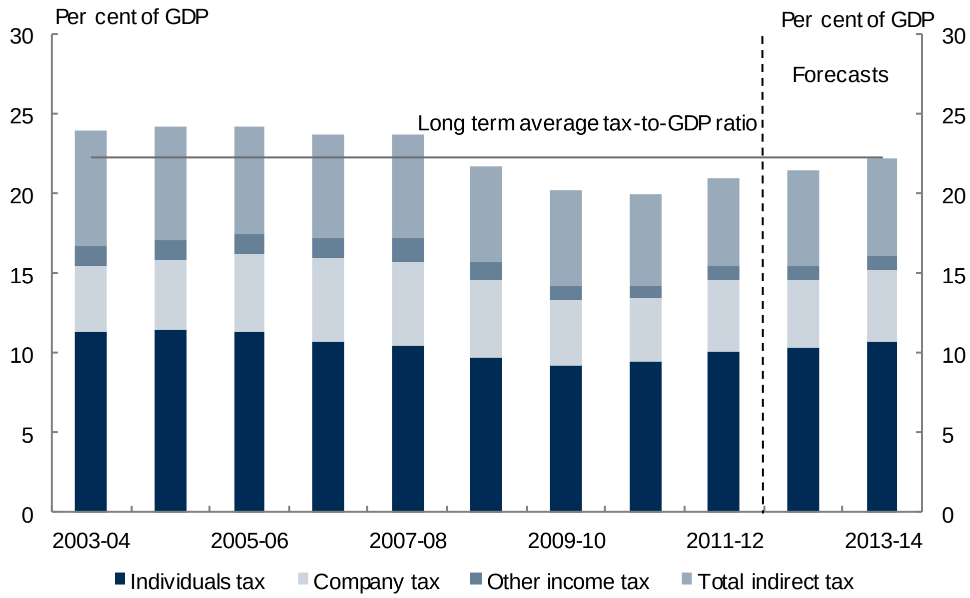
While both the timing and pace of the fall in the terms of trade are uncertain, an unwinding has been factored into the forward estimates since 2005. The fact that the terms of trade rose far more than expected boosted nominal GDP and revenue more than was anticipated up to 2007-08; with the terms of trade recently falling more rapidly than anticipated, this has reduced nominal GDP and revenue growth more than forecast.

5 Nominal GDP differs from nominal gross national income because of net primary income paid to non-residents (mainly interest and dividends on net foreign liabilities).

Declines in the tax-to-GDP ratio

The downward revision to tax receipts in recent years is also due in part to a lower revenue yield per dollar of GDP. From its pre-crisis level of 23.7 per cent of GDP in 2007-08, the tax-to-GDP ratio fell 3.7 percentage points (around 16 per cent) to 20.0 per cent in 2010-11, the biggest decline in the ratio since the 1950s. This fall reflected declines across a number of categories (Chart 5).

Chart 5: Composition of tax receipts



Source: Treasury estimates.

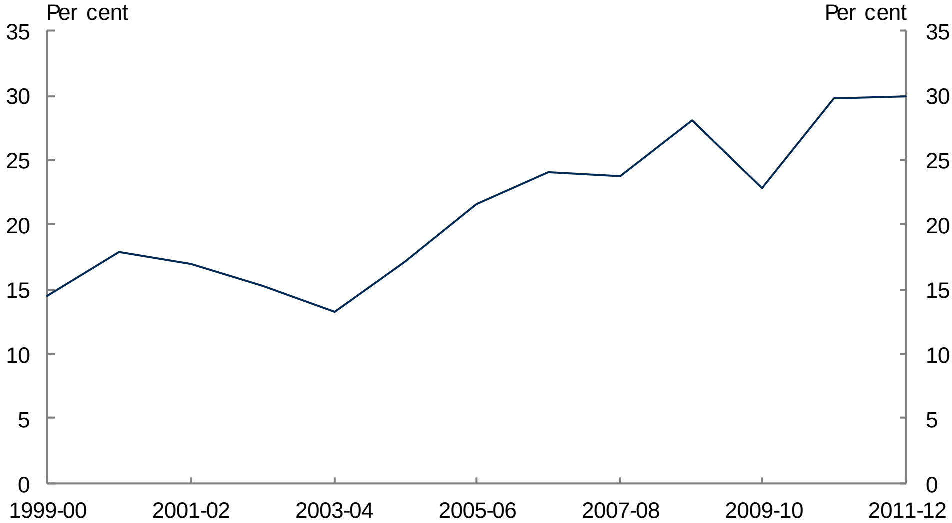
The tax share of GDP in 2012-13 is now expected to be 1.0 percentage points lower than projected at the 2010-11 Budget and 0.8 percentage points lower than its long-term average. Receipts in 2012-13 would be $16 billion higher than currently forecast if the previously projected tax share had been realised. The tax share is expected to remain well below pre-GFC levels across the forward estimates, reflecting a number of factors, including the enduring impacts of the GFC on CGT receipts (which were at unsustainable levels prior to the GFC), changes in the sectoral composition of profits and the effects of previous policy decisions.

Longer-term changes in the composition of profits

Changes in the composition of the economy can affect tax receipts because average effective tax rates differ between components of aggregate incomes. A key factor in this regard has been the growing share in the economy of the resources sector, which does not pay as much tax per dollar of economic activity as other sectors (measured by the ratio of tax paid to net operating surplus).[6] Since 2008-09 the ratio of company tax paid to NOS for mining has averaged around 15 per cent, compared to 25 per cent for the corporate sector as a whole.[7] This relatively low ratio reflects a range of factors, including royalty deductions, the capital-intensive nature of mining and the accelerated rates at which investment can be written off for tax purposes. For example, increasing levels of investment in this sector have seen annual mining depreciation growth triple, from around 4.5 per cent in 2003-04 to 15 per cent by 2011-12.

High prices for resource exports have boosted resource sector profits so much that mining's share of corporate gross operating profits has doubled since 2003-04 (Chart 6). The low effective tax-to-NOS ratio means that an increased share of mining profits in total profits and nominal GDP will lower the tax-to-GDP ratio. Despite the forecast decline in global commodity prices, the mining share is likely to remain elevated for some time. Depreciation deductions resulting from the surge in resources sector investment in recent years are also expected to depress tax receipts for some time, although this impact is expected to eventually recede.

Chart 6: Mining share of gross operating surplus



Source: ABS Cat. No. 5204.0 and Treasury.

Another contributor to the recent growth in deductions is the immediate deduction that is available for assets first used in exploration. In this Budget the Government has announced that it will better target these deductions to address abuses while supporting genuine exploration activity.

6 Net operating surplus (NOS) is gross operating surplus (the National Accounts measure of company profits) less depreciation.

7 The definition of mining used in this section aligns with the Australia and New Zealand Standard Industrial Classification (ANZSIC) 2006 codes on the Australian Business Register and includes extraction of gas and petroleum.

Lower realised capital gains

Another key reason the tax-to-GDP ratio has been unusually low recently is lower CGT receipts. CGT receipts were unusually high in the years leading up to the GFC, as strong growth in asset prices led to high levels of realised capital gains (Chart 7). The decline in global share prices during the GFC, along with weak asset price growth since, has reduced CGT receipts to less than one-third of these peak levels as a share of GDP. Revisions to CGT receipts have been substantial with forecast CGT receipts for 2013-14 now $10 billion lower than expected at the 2010-11 Budget. While CGT receipts are expected to recover somewhat over the forward estimates, they are not expected to return to pre-GFC levels, which reflected a period of strong asset price growth that is unlikely to be repeated in the foreseeable future (Lowe 2012).

Chart 7: Capital gains tax receipts as a share of GDP

Source: Treasury.

Impacts of policy changes and other factors

Policy changes can also affect the tax-to-GDP ratio. One series of policy changes that is having a particularly large impact on the tax share is the successive large cuts to personal income tax rates implemented between 2005-06 and 2009-10. The average personal income tax rate fell from over 23 per cent of taxable income in the early 2000s to less than 20 per cent in 2009-10 — which meant that the personal income tax system delivered around 15 per cent less revenue for each dollar of taxable income.

While personal income tax collections as a share of GDP are expected to return to early 2000s levels by the end of the forward estimates period, revenue forgone in the interim will have been substantial. For example, tax receipts would have been $14 billion higher in 2012-13 had the average personal tax rate remained at its 2005-06 level, abstracting from any impacts the tax cuts may have had on the personal income tax base.

Other policy changes that have contributed to reducing tax receipts as a share of GDP include changes to superannuation taxation in 2006-07 and business tax and capital gains tax concessions introduced in the early 2000s. The decision announced in the 2006-07 Budget to make superannuation benefits tax-free for retirees aged 60 and over who have already paid tax on contributions and earnings has had substantial enduring impacts on personal tax collections. However, the Government has announced a range of policies designed to reduce tax expenditures over the next decade, including reducing concessions on contributions for very high income earners and capping the tax exemption for earnings on superannuation assets supporting retirement income streams to $100,000 of annual earnings for each individual.

In this Budget the Government has also announced a number of measures to protect the corporate tax base. These measures address a number of tax planning strategies used by multinational enterprises and domestic companies to exploit design flaws, vulnerabilities and unexpected interactions in Australia's corporate tax laws.

In addition to the specific factors that have reduced the tax share in recent years, there are other factors that have eroded the tax-to-GDP ratio over a longer period. A significant long-term factor has been the trend decline in indirect taxes as a proportion of GDP. Indirect tax (excluding GST) collections have fallen from 3.6 per cent of GDP in 2001-02 to 2.5 per cent of GDP in 2011-12.

THE GOVERNMENT'S FISCAL STRATEGY IN RESPONSE TO MEDIUM-TERM CHALLENGES

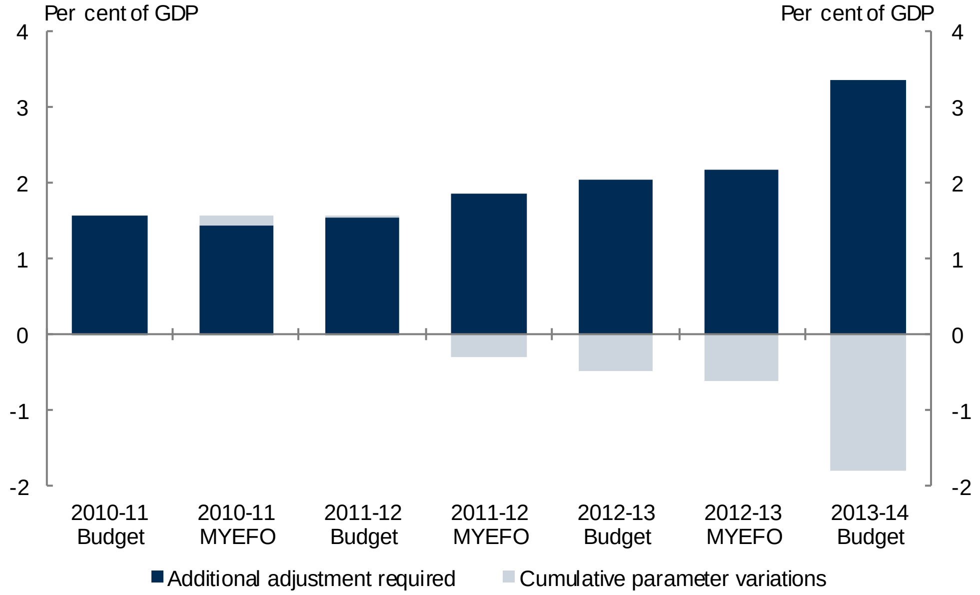
The combination of flexibility and sustainability embodied in the medium-term fiscal strategy has helped underpin Australia's strong economic performance. Consistent with the principles underlying the strategy, the guiding imperative for this Budget is to reinforce fiscal sustainability over the medium term while limiting adverse impacts on economic growth and jobs in the near term.

Revenue write-downs have increased the fiscal adjustment needed to return to surplus

This task has been made harder by the revenue write-downs outlined above. Returning to surplus by 2012-13, as previously intended, would have required an improvement in the budget balance of at least 4.2 percentage points of GDP, relative to the deficit outcome in 2009-10. At the time of the 2010-11 Budget, when a surplus was first projected for 2012-13 following the GFC, 2.2 percentage points (around half of the required adjustment) was to be achieved from the expiration of temporary stimulus measures and around 0.5 percentage points was anticipated from the unwinding of automatic stabilisers as the economy returned to full capacity.[8] The implied fiscal adjustment to return to surplus, over and above the automatic impacts of the economic cycle and the unwinding of the temporary stimulus, was therefore around 1.6 per cent of GDP at the time of the 2010-11 Budget (Chart 8).

Since the 2010-11 Budget, parameter variations have worsened the budget balance, requiring the Government to do more to achieve the same fiscal consolidation. By the time of last year's Mid-Year Economic and Fiscal Outlook (MYEFO), cumulative parameter variations since the 2010-11 Budget had detracted 0.6 per cent of GDP from the budget balance for 2012-13, with revenue write-downs being partially offset by parameter variations to payments. This increased the fiscal adjustment required to achieve surplus in 2012-13 from 1.6 to 2.2 per cent of GDP, with the increase representing the cumulative discretionary savings required to offset parameter variations between the 2010-11 Budget and the 2012-13 MYEFO. Parameter variations since MYEFO have detracted a further 1.2 per cent of GDP, increasing the adjustment required to return to budget surplus by 2012-13 (over and above the impact of automatic stabilisers and the unwinding of temporary stimulus) to 3.4 per cent of GDP; more than double the adjustment originally anticipated.

Chart 8: Fiscal adjustment from 2009-10 required to return to surplus in 2012-13



Source: Treasury.

As recent parameter variations, primarily affecting the fiscal position through receipts downgrades, have increased the adjustment required to return to surplus in 2012-13 to

8 The 2009-10 budget deficit was forecast at the 2010-11 Budget to be 4.4 per cent of GDP. However, as the required adjustment depends on the outcome for 2009-10, the difference between the forecast and the outcome is ignored for the purpose of this analysis.

a size that would have a significant adverse impact on the economy, the Government has decided to defer its planned return to surplus. This decision is consistent with the Government's medium-term fiscal strategy.

Balancing the pace of adjustment with jobs and economic growth

While the Australian economy remains strong, uneven conditions across the economy and the dampening effect of the persistently high Australian dollar have seen the unemployment rate rise moderately since mid-2011. Although GDP growth is expected to be close to trend in 2013-14, the transition under way in the economy is expected to see the unemployment rate rise slightly to 5¾ per cent by the June quarter of 2014. The outlook is also subject to downside risks relating to global uncertainties and the transition domestically to other sources of growth as the resources investment boom recedes.

Tax receipts write-downs and other parameter variations since MYEFO would have required the Government to find further savings of at least 1.2 per cent of GDP to return the budget to surplus in 2012-13. While the savings measures the Government has implemented to date have been designed to minimise adverse impacts on the economy, this becomes harder as the savings task becomes larger and the timeframe to implement becomes shorter. In the current environment, offsetting the revenue write-downs since MYEFO for 2012-13 would risk depressing economic growth, undermine jobs growth and place upward pressure on the unemployment rate. This could lead, in turn, to even lower revenue and increased spending on unemployment benefits, which would work against the planned improvement in the budget. In contrast, the savings measures announced in the Budget will be implemented over a timeframe that limits any drag on the economy.

Monetary policy has provided support for the economy as the Government has consolidated its fiscal position. However, as monetary policy operates with considerable lags it would not be able to offset the effects of a sharp fiscal tightening undertaken over a very short time frame. Monetary policy may also be less effective in an environment in which households and businesses have been reluctant to take on more debt and in which the exchange rate has not been responding as it normally does to reductions in domestic interest rates and the declining terms of trade.

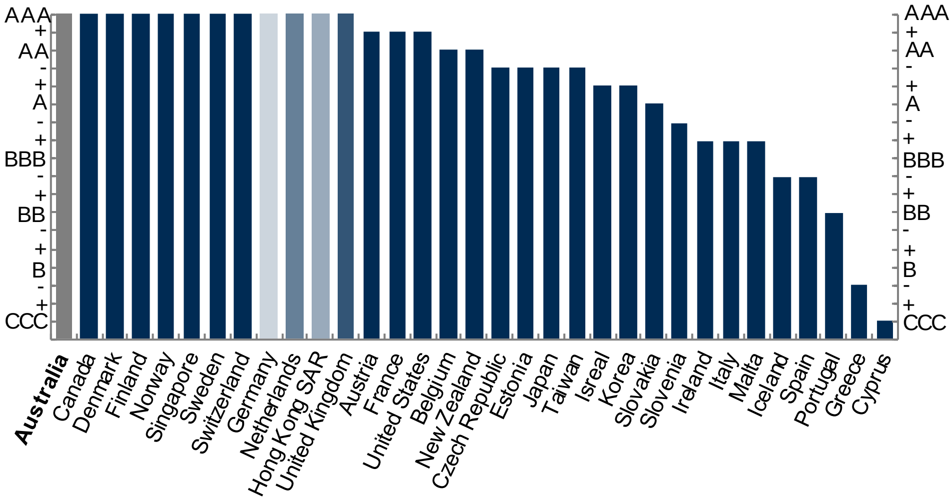
Low debt gives us the flexibility to smooth fiscal adjustment

Australia's low level of government debt means that we retain considerable fiscal flexibility.

Although a later return to surplus means debt will be paid down more slowly than previously expected, when combined with a credible medium-term commitment this should not have significant adverse impacts. Net debt remains low and is expected to peak at 11.4 per cent of GDP in 2014-15. The cost of servicing new debt is also low, with bond yields currently around historically low levels.

Australia is one of only eight countries rated AAA with a stable outlook by all three major rating agencies (Chart 9). Australia's AAA rating means that the Government is assessed as having an extremely strong capacity to meet its financial commitments. Financial markets continue to view Australian government debt as very safe. Credit default swap rates on Australian government debt, which measure the cost of insuring against default, are currently close to those of major advanced economies such as the United States and Germany.

Chart 9: Sovereign debt ratings for advanced economies (Standard & Poor's)



Note: Germany's rating is on negative outlook with Moody's. The Netherlands is on negative outlook with S&P, Moody's and Fitch. The UK is on negative outlook with S&P, and is rated AA+ by Fitch and AA1 by Moody's. Hong Kong is rated AA+ by Fitch and AA1 by Moody's.
Source: Bloomberg.

The relative health of Australia's fiscal position has also increased demand for Australian government securities. Foreign investors hold around 70 per cent of securities outstanding, and the partial information available suggests that a significant proportion is held by official investors, who are more likely to be stable long-term investors.

But fiscal consolidation is still needed over the medium term

The case for phasing in fiscal adjustment in no way diminishes the importance of fiscal consolidation over the medium term.

The need for fiscal consolidation involves more than just returning the budget to surplus, although this is an important first step. The medium-term fiscal strategy requires that sufficiently large surpluses be achieved when economic conditions are favourable to more than offset deficits that inevitably occur in adverse economic circumstances, thereby recharging fiscal buffers to allow for future fiscal stimulus if circumstances require.

When the economy is hit by adverse shocks it is appropriate for the budget to go into deficit to help moderate the impact. But this is only sustainable if fiscal policy operates symmetrically over the economic cycle. Such shocks are inherently unpredictable, but it is prudent to plan on the basis that they will occur periodically, particularly in a more volatile global environment. If we are to retain the flexibility to respond to future shocks, the government's balance sheet needs to be strengthened during good times, as the Government is doing through steps taken in this Budget.

Structural improvement to the budget over time is also important because of the longer-term fiscal challenges arising from population ageing and growth in health costs. The *Intergenerational Report 2010* highlighted that these challenges are no longer far off in the future. Ageing and health pressures have already begun to detract from the fiscal position, while Australia's potential growth rate will soon slow as a result of declining aggregate labour force participation rates. These impacts will only grow steadily over time, as a result of:

- growth in spending on age-related pensions and aged care services owing to the ageing of the population; and
- growth in spending on health, partly reflecting pressures from ageing, but mainly owing to increasing demand for health services and the cost of new technologies.

To that end, the Budget announces a number of measures that improve the fiscal position over the medium and longer term, including measures to protect the corporate tax base from erosion and loopholes, and reforms to family payments. These measures complement long-term savings measures already implemented over recent years to address longer-term fiscal pressures, while making fiscal space for investments in key areas such as education and disability insurance that will deliver long lasting economic and social benefits (Box 3).

In order to shed light on the further fiscal adjustments that might be required in future, the following section presents analysis of the medium-term outlook for fiscal sustainability under the policy settings in this Budget.

Box 3: Savings that endure

The Government's fiscal strategy includes a strong focus on the medium-term sustainability of the budget. When making decisions, the Government considers not only the impact on the forward estimates period, but also the longer-term budgetary effects. This Government was the first to introduce regular reporting on the medium-term outlook in each Budget and MYEFO, reporting on the outlook for the underlying cash balance and net debt beyond the forward estimates.

Since its first budget in 2008-09, the Government has made savings decisions that will continue to improve the budget position well beyond the end of the forward estimates. These include increasing the pension age to 67 and reforms to the private health insurance rebate and to the family payments system. These decisions help to improve the structural position of the budget and provide space for significant new priorities, including the National Plan for School Improvement and establishing DisabilityCare Australia, which will deliver long-term economic and social benefits.

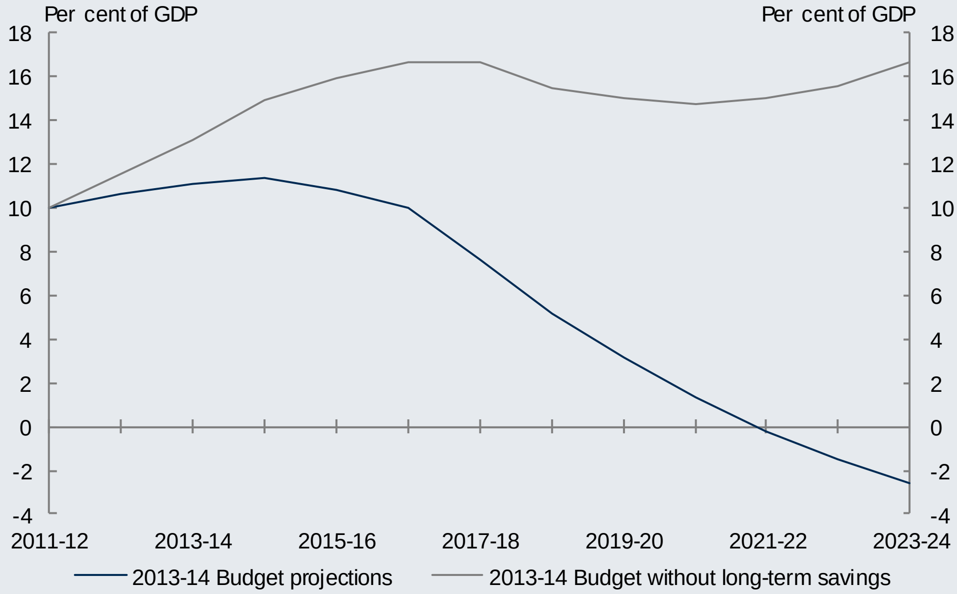
Significant new long-term savings in this Budget include:

- the increase in the Medicare Levy to fund DisabilityCare;
- measures to protect the corporate tax base from erosion and loopholes;
- reforms to family payments to improve the sustainability of the system;
- better targeting of the research and development tax incentive;
- ensuring that tobacco excise rates keep pace with income growth;
- phasing out the poorly-targeted net medical expenses tax offset; and
- reforms to improve the fairness, sustainability and efficiency of the superannuation system.

Without the savings made since the 2008-09 Budget the fiscal outlook would not be as strong. The long-term savings the Government has made in this Budget and previously mean that the budget is cumulatively better off by over $300 billion by around 2020 (Chart A).

Box 3: Savings that endure (continued)

Chart A: Long-term savings and net debt



Note: To allow comparison with this Budget's medium-term projections, only the part of the savings from 2012-13 onwards is included (for instance, a measure from the 2008-09 Budget only contributes to the savings projection from 2012-13 onwards).
Source: Treasury.

Long-term fiscal sustainability is also assisted by policies that increase long-term growth in the economy. In this Budget the Government has funded the National Plan for School Improvement, which will help to lift productivity and participation by investing in our people. The Budget also provides funding for high-quality infrastructure projects to improve productivity, building on previous investments such as the National Broadband Network. And this Budget funds DisabilityCare Australia that, in addition to providing a fairer system for Australians with disability, will enhance their opportunities for social and economic participation.

MEDIUM-TERM OUTLOOK FOR FISCAL SUSTAINABILITY

Assessing fiscal sustainability involves examining a government's capacity to meet its liabilities without placing upward pressure on interest rates or impeding economic growth. A government's finances can be judged as fiscally sustainable when the government can meet its current and future financial obligations without the need for unrealistically large and disruptive adjustments to tax and expenditure programs.

A government's capacity to meet its liabilities depends on a wide range of factors. These include the level of debt, the values of financial and non-financial assets and liabilities, interest rates and economic growth prospects. Fiscal sustainability also depends on the extent to which a government's budget position is supported by factors that are permanent or temporary in nature, the quality of institutions and whether a government is in a position to meet any contingent liabilities.

There is no single indicator that adequately captures all of these elements. While a credible plan to return the budget to surplus and low levels of government debt are key, there are also a number of analytical measures that can shed light on aspects of fiscal sustainability. There are arguments for and against each analytical measure, so it is important that an assessment of fiscal sustainability consider the measures collectively, rather than in isolation.

Sustainability assessments begin with the budget balance

A starting point in assessing fiscal sustainability is the trajectory of the underlying cash balance. The GFC led to a substantial deterioration of budget balances in most countries. Australia was no exception, with the operation of the automatic stabilisers and the use of discretionary fiscal stimulus pushing the budget into deficit (although the support to the economy provided by the stimulus partially offset this impact). However, we have fared better than most, as a result of many factors, including the efficacy of our fiscal expansion, which helped limit the economic impacts of the crisis.

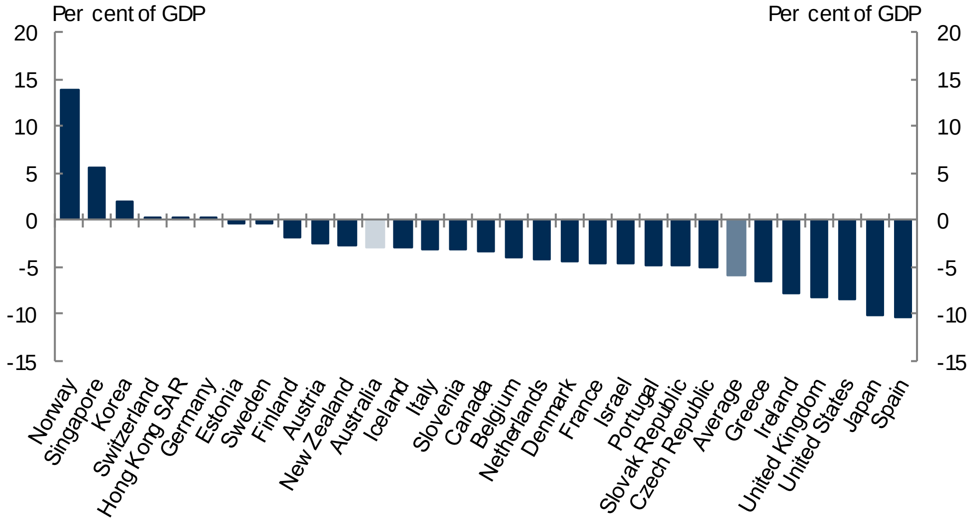
As described earlier in this Statement, while the temporary fiscal stimulus measures have since been unwound, the GFC and the resources investment boom have had enduring impacts on the government's tax receipts. Coupled with weakness in nominal GDP growth due to the high Australian dollar and falling global commodity prices, this has seen the underlying cash balance remain in deficit.

The settings in this Budget are expected to return the budget to balance in 2015-16 and to surplus by 2016-17. The plan to return the budget to surplus is clear and achievable. It involves savings measures to address major areas of fiscal pressure in the long term and commitments to constrain growth in real spending and allow tax receipts to recover naturally as the economy grows.

Australia's budget position compares favourably with most other advanced economies (Chart 10). For comparability, Australian data are presented for consolidated general government, including state and local governments.[9] In 2016-17, when the Australian Government budget is projected to return to surplus, the IMF *Fiscal Monitor* projects that only 10 of 30 advanced economies will be in surplus. Collectively, the advanced economies are expected to run a budget deficit of 2.6 per cent of GDP in that year.

9 Australia's consolidated general government underlying cash deficit is forecast in the Budget to be 2.9 per cent of GDP in 2012-13, compared to an underlying cash deficit for the Commonwealth of 1.3 per cent of GDP.

Chart 10: Comparison of budget balances for advanced economies 2012



Note: Data are for general government (that is, consolidated Commonwealth, State, and local government). Data for Australia are for 2012-13, from Budget Paper No. 3 Appendix C, and will differ from those presented elsewhere in Budget Paper No. 1, which are for the Commonwealth Government only.
Source: IMF Fiscal Monitor April 2013 and Treasury.

Distinguishing between temporary and permanent factors is important

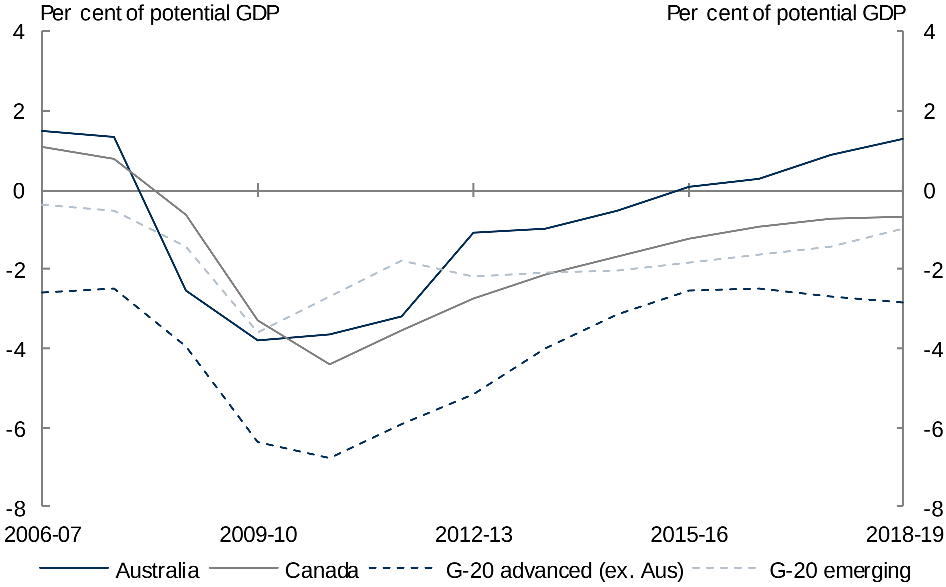
An assessment of fiscal sustainability should also consider the factors driving the budget balance. A common approach is to adjust the budget balance for the impact of economic factors that are considered likely to be temporary. These temporary influences may obscure the underlying fiscal position and, therefore, the extent to which fiscal adjustments might be needed in future to maintain sustainability.

The cyclically-adjusted balance (CAB) estimates what the budget balance would be if the real economy was operating at full capacity, consistent with stable inflation. This provides an indication of the size of the automatic fiscal stabilisers — that is, the cyclical impact on the budget of the economy being either above or below full capacity.

The CAB is widely used internationally, with estimates published by the IMF, OECD and a number of individual countries. IMF estimates, updated by Treasury for the 2013-14 Budget, suggest that Australia is currently in a modest cyclically-adjusted deficit, but that it is in a better position than most other countries, particularly the major advanced economies (Chart 11).[10] Australia's CAB from 2012-13 onward also compares favourably to that of Canada, another commodity-exporting advanced economy that came through the GFC in relatively good shape.

10 The IMF's general methodology for estimating the CAB is outlined in Escolano (2010).

Chart 11: Cyclically adjusted balance



Note: Australian data are for Commonwealth government on a financial year basis. Data for other countries are for total general government and are on a calendar year basis (for example, 2006-07 data are for calendar year 2006).
Source: IMF Fiscal Monitor April 2013 and Treasury.

Estimates of the CAB are sensitive to assessments of an economy's productive potential, which is difficult to estimate in real time. They also need to be considered in the context of Australia's low debt levels, which are discussed in the next section.

Structural budget balance estimates go a step further, adjusting the cyclically-adjusted balance for other economic factors considered likely to have large temporary impacts on the budget. Like the CAB, estimates of the structural budget balance are subject to considerable uncertainty, due to their sensitivity to assumptions and reliance on values of difficult to estimate concepts, such as the output gap and the structural level of the terms of trade. These uncertainties caution against over-reliance on point estimates and emphasise the need to consider a range of plausible estimates. International experience also cautions against the use of CAB and structural balance estimates for setting fiscal policy due, in particular, to the difficulty in making reliable estimates in real time.

The key assumption underpinning structural balance estimates in Australia's case is the long-run assessment of our terms of trade, which have risen significantly over the past decade, largely due to strong growth in demand for Australia's non-rural commodity exports from emerging Asia. While the terms of trade have already fallen from their peak in the September quarter of 2011 and are projected to fall further as global supply of non-rural commodities increases, there is considerable uncertainty around terms of trade projections, including in the medium-to-long term.

It is also difficult to capture the relationship between economic aggregates and revenue, which can vary considerably over time, depending on how different tax bases are affected. This is especially the case when the economy is experiencing large shocks, such as those associated with the resources boom and the GFC over the past decade.

Structural budget balance estimates produced for Australia by organisations such as the OECD indicate that, prior to the GFC, underlying cash surpluses were supported by temporary factors, including the high terms of trade, an economy operating above its long-run potential and buoyant asset prices. This drove a temporary surge in tax receipts that was used to finance spending increases and tax reductions, causing deterioration in the structural budget position.

The GFC led to a further deterioration in the structural budget position, largely due to the Government's temporary fiscal stimulus measures and some of the factors that drove the fall in the tax share of GDP described earlier in this Statement. The fiscal stimulus measures have since been unwound; however, the reduced tax share of GDP continues to weigh on the budget.

Continued improvement in the structural budget position over the short- and medium-term is supported by the Government's long-term savings measures (described in Box 3) and the disciplines imposed by its commitments to:

- allow tax receipts to recover naturally as the economy improves, while keeping taxation as a share of GDP below its 2007-08 level on average; and
- hold real spending growth to 2 per cent a year, on average, until the budget surplus reaches at least 1 per cent of GDP, and while the economy is growing at or above trend.

This will reinforce the sustainability of the fiscal position at a pace that does not undermine economic growth or threaten jobs.

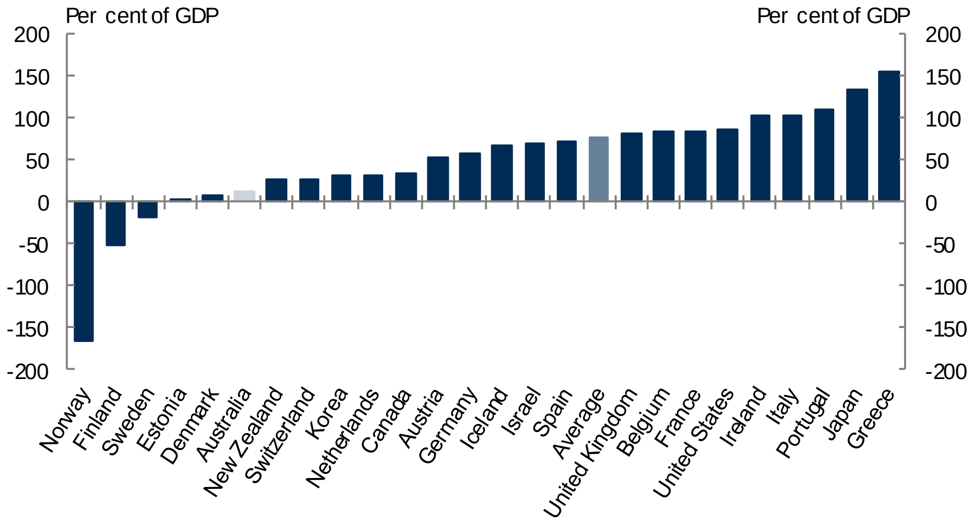
The strength of the government balance sheet is critical

Fiscal sustainability ultimately comes down to the government's ability to meet its current and future liabilities. A common measure of a government's liabilities is net debt. Net debt is preferred to gross debt as it takes into account total debt liabilities as well as debt-equivalent assets held by the government.

The Government's medium-term fiscal strategy takes a broader perspective still, targeting an improvement in net financial worth over time. Net financial worth takes account of financial assets and liabilities not included in net debt, such as equity investments and government employee superannuation liabilities. While more comprehensive than net debt, net financial worth measures are not widely available across countries and therefore fiscal sustainability assessments often fall back onto net debt comparisons.

Chart 12 shows that Australia has retained its strong balance sheet position with much lower debt levels than other advanced countries (these data are also on a total general government basis for comparability).[11] The expected peak in Australia's general government net debt (comprising the Australian Government, state and local governments) of 14.9 per cent of GDP in 2014-15 is around one-fifth of the average level in that year for the advanced economies as a whole and one-sixth of the average level for the G7.[12] Within the advanced economies, only five small northern European economies have stronger net debt positions, out of the 25 advanced economies for which these data are available.

Chart 12: Comparison of net debt for advanced economies 2012



Note: Data are for general government (that is, consolidated Commonwealth, State, and local government). Data for Australia are for 2012-13, from Budget Paper No. 3 Appendix C, and will differ from those presented elsewhere in Budget Paper No. 1, which are for the Commonwealth Government only.
Source: IMF Fiscal Monitor April 2013 and Treasury.

It is also important to take account of risks to the balance sheet from contingent liabilities, which have the potential to significantly affect fiscal sustainability. A key lesson from the GFC is that adverse events that trigger crystallisation of contingent liabilities — in particular, financial system guarantees — can dramatically transform government balance sheets. This highlights the importance of Australia's strong institutions, a resilient financial sector and sound economic management for maintaining fiscal sustainability.

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11 Australia's total consolidated general government net debt is forecast in the Budget to be 13.0 per cent of GDP in 2012-13, compared to Commonwealth net debt of 10.6 per cent of GDP.

12 For Australian Government net debt, the expected peak is 11.4 per cent of GDP in 2014-15. Australian Government net debt levels will be less than one-eighth of the average level for the major advanced economies.

While the number and value of quantifiable contingent risks on the government balance sheet has risen over the past decade, as has the number of unquantifiable risks, these contingent liabilities and other fiscal risks are comprehensively identified and detailed in the budget documents (see Budget Statement 8). Importantly, contingent risks relating to the financial sector are well managed by Australia's robust prudential regulation regime, as attested by the GFC experience and the results of recent financial system stress tests (Laker 2012).

Debt dynamics also matter

The evolution of government liabilities as a share of GDP is also important for fiscal sustainability. A common approach is to estimate the primary balance required to stabilise debt at a given share of GDP, as an indicator of the adjustment needed to ensure fiscal sustainability. For this purpose, the IMF calculates the cyclically-adjusted primary balance (CAPB) that needs to be achieved from 2020 onward so as to achieve a given debt ratio by 2030.[13]

The latest IMF estimates, updated for the 2013-14 Budget numbers, suggest that Australia faces a smaller adjustment from the current CAPB position to maintain sustainability over the medium-term than most other advanced economies (Chart 13).[14] This reflects a lower starting point for the cyclically-adjusted primary deficit and the debt ratio.

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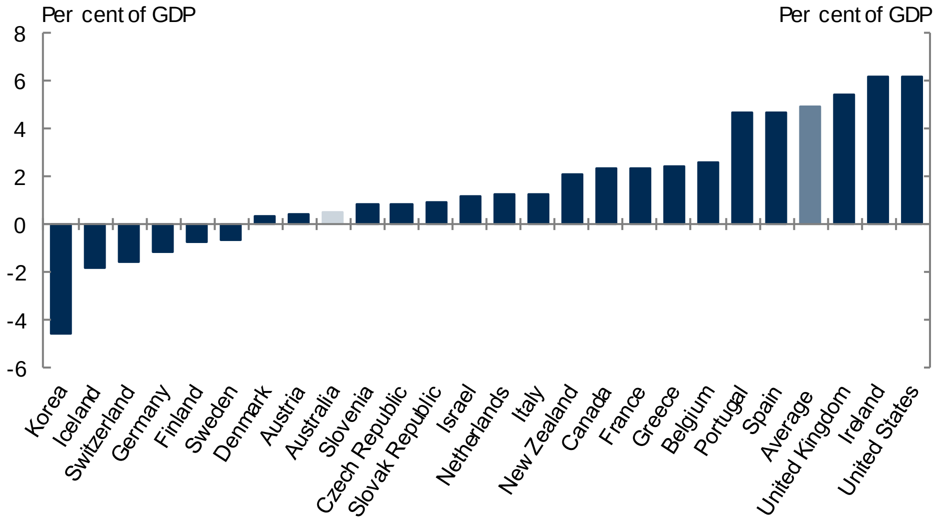
13 The IMF's methodology is outlined in Schaechter et al (2012).

14 This approach is also subject to caveats. In particular, it is contingent on assumed (and somewhat arbitrary) debt targets that vary across countries and does not necessarily provide an absolute benchmark to assess sustainability across countries or across time for the same country (Escolano 2010).

Chart 13: Advanced economies — medium-term adjustment required to stabilise debt-to-GDP ratio by 2030



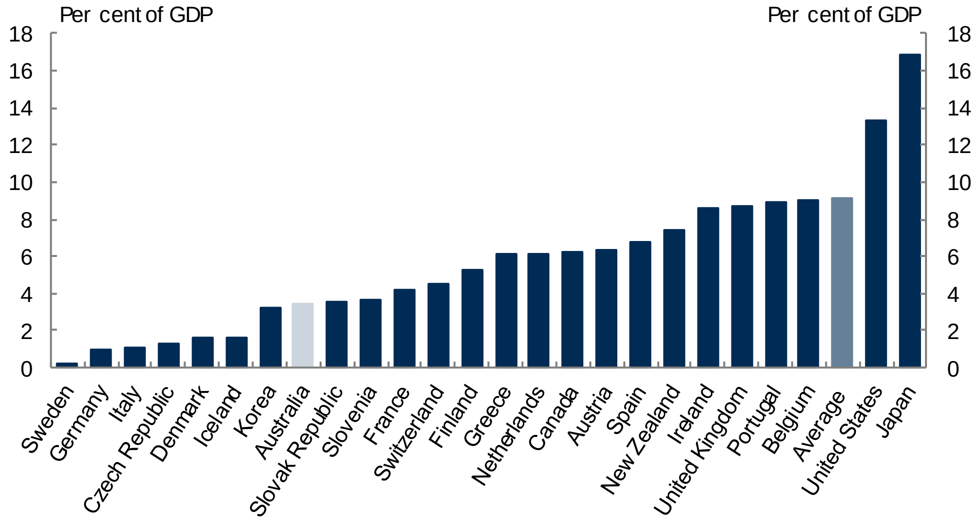
Note: Adjustment required from 2013 CAPB to bring the debt ratio down to 60 per cent (80 per cent for Japan), or to stabilise the ratio at the end-2013 level by 2030 if the ratio is less than 60 per cent. Ratio is for gross general government debt, except for Australia, Canada, Japan, and New Zealand, where net debt ratios are used. CAPB is CAB plus gross interest payments, except for Australia, Canada, Japan, and New Zealand, where CAPB is CAB plus net interest payments. Japan has been excluded from the chart for presentational reasons. Japan's medium term adjustment required to stabilise its debt-to-GDP ratio by 2030 is 16.1 per cent of GDP. Australian data are for Commonwealth government and relate to financial years 2013-14 and 2030-31. Data for other countries are for total general government and are on a calendar year basis.
Source: IMF Fiscal Monitor April 2013 and Treasury estimates.

In interpreting these estimates it is important to bear in mind that they are based on assumptions that have most other economies stabilising their debt ratios at higher levels than Australia. Of the eight countries assessed as having a smaller medium-term adjustment need than Australia, five have higher net debt ratios.

The IMF also calculates a required 'long-term' adjustment, which adds to the medium-term adjustment projected increases in age-related spending — recognising that this will require further savings in order to stabilise the debt ratio. Although the long-term required adjustment is larger than the medium-term adjustment, Australia also faces a smaller adjustment on this measure than most other advanced economies (Chart 14). In addition to the factors explaining the smaller medium-term adjustment, this also reflects a smaller projected increase in age-related spending. Of the seven countries assessed as having a smaller long-term adjustment need than Australia, five have higher debt ratios.[15]

15 This comparison in based on IMF net debt data where these are available, and on IMF gross debt data in the case of the Czech Republic.

Chart 14: Advanced economies — long-term adjustment required to stabilise debt-to-GDP ratio by 2030

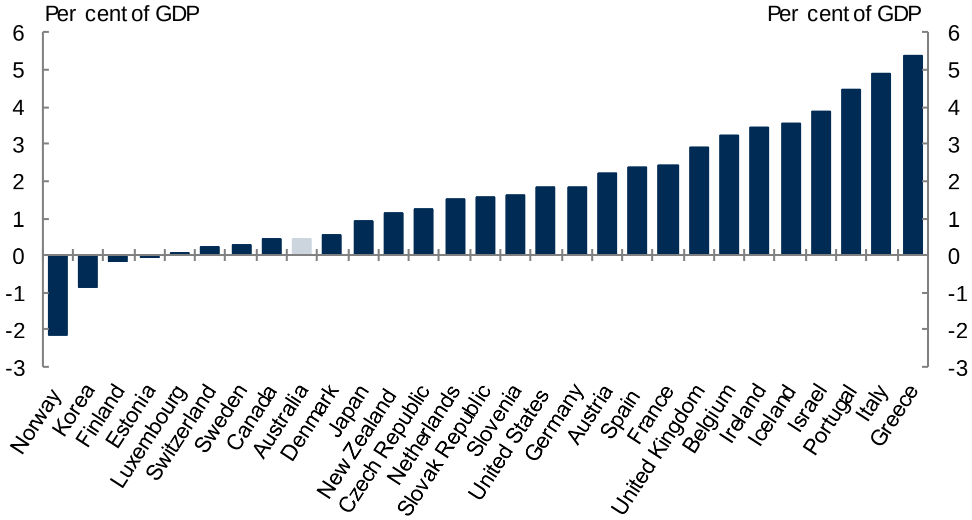


Note: As for Chart 13, with projected increase in age-related spending added to required medium-term primary balance adjustment.
Source: IMF Fiscal Monitor April 2013 and Treasury estimates.

Low debt means low interest payments

Australia's low net debt position is reflected in a relatively low net interest burden, notwithstanding that our stronger economy means that domestic interest rates are not as low as in many other advanced economies (Chart 15). As interest rates in countries like Japan, the United States and the United Kingdom are further below normal levels, this — together with the expectation that debt levels will remain high for some time — means that their budgets are more exposed to rising interest burdens once their economies recover and interest rates normalise.

Chart 15: Comparison of net interest payments for advanced economies 2012



Note: Data are for general government (that is, consolidated Commonwealth, State, and local government). Data for Australia are from Budget Paper No. 3 Appendix C and will differ from those presented elsewhere in Budget Paper No. 1, which are for the Commonwealth Government only. Australian data are for 2011-12, as forecasts of net interest payments for State and local governments for 2012-13 are not available.
Source: OECD Economic Outlook 92 and Treasury.

CONCLUSION

Sound fiscal policy involves ensuring that fiscal settings are sustainable over the medium term, while allowing the fiscal position to vary in response to economic conditions in the near term so as to contribute to macroeconomic stability.

The preceding analysis shows that the Government is striking an appropriate balance. Australia's public finances remain in good shape, with low net debt and the Government's fiscal credibility underpinning a stable AAA credit rating from all three major credit rating agencies. The Government's long-term savings measures and its commitments to limit real spending growth and allow tax receipts to recover naturally will strengthen the sustainability of the fiscal position over time, without undermining economic growth or threatening jobs.

Recent falls in global commodity prices and subdued recovery in financial asset prices following the GFC highlight the extent to which the budget surpluses in the years leading up to the GFC were supported by temporary factors. Conditions in the real economy have also been more challenging since the GFC for those sectors that are not connected to the resources sector. This reflects, in particular, the high Australian dollar and a more cautious approach to spending and borrowing by households.

While the main concern for macroeconomic policy in the pre-GFC period was the risk of inflationary pressures in the context of the largest terms of trade boom in our history, the main priority at present is maintaining solid economic growth and low unemployment as the resources investment boom reaches its peak and the economy transitions to other drivers of growth.

Recent sizeable revenue write-downs have increased the fiscal adjustment needed to return the budget to surplus at a time when there is a greater risk that further near-term fiscal tightening might slow the economy excessively. Australia's low level of government debt and the credibility of the Government's medium-term fiscal strategy provide the flexibility to phase in the fiscal adjustment over a longer period than previously envisaged.

The Government's plan to return the budget to surplus, including the long-term savings measures announced in this Budget, strengthens fiscal sustainability on a timeframe that does not risk undermining the strength of the Australian economy. This will ensure that Australia maintains a strong fiscal position, including compared to most other advanced economies.

Maintaining fiscal sustainability is not only about implementing savings measures. Fiscal sustainability can also be assisted by policies that increase long-term growth in the economy, contributing to higher revenues. Hence, this Budget also funds critical social and economic reforms in areas such as education, disability care and infrastructure to boost the nation's productivity and set Australia up for future prosperity.

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STATEMENT 5: REVENUE

Since the 2012-13 Budget, tax receipts have been revised down by around $17 billion in 2012-13. This brings the total write-down in tax receipts over the five years since the 2008-09 Budget to around $170 billion. Since the 2012-13 MYEFO, tax receipts have been revised down by around $60 billion over the four years to 2015-16.

Tax receipts have been significantly affected by weaker than expected nominal GDP growth. Weaker commodity prices and the persistently high Australian dollar, which has put pressure on domestic prices, have hit company profits across most of the economy, including the resources sector. This has had a significant impact on the level of company tax receipts expected in 2012-13 and over the forward estimates.

Lower than expected capital gains tax and resource rent taxes have compounded the fall in company tax receipts. Income tax withholding and consumption taxes have been revised down to a lesser extent, as wages are expected to grow modestly and consumption growth remains solid over the forward estimates. The fall in tax receipts have been partly offset by policy measures including measures designed to ensure the integrity of the tax base.

The tax-to-GDP ratio is expected to rise from 21.5 per cent in 2012-13 to 23.2 per cent by the end of the forward estimates. The average tax-to-GDP ratio in the five years to 2012-13 is lower than any period since the five years ending in 1995-96.

In 2012-13 alone, tax receipts have been revised down by $33.5 billion since the *2010 Pre-Election and Fiscal Outlook*. If the tax-to-GDP ratio was the same as it was in 2007-08 (23.7 per cent), the year immediately prior to the global financial crisis (GFC), tax receipts would be around $24 billion higher in 2013-14.

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STATEMENT 5: REVENUE

OVERVIEW

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Lower than expected capital gains tax and resource rent taxes have compounded the fall in company tax receipts. Income tax withholding and consumption taxes have been revised down to a lesser extent, as wages are expected to grow modestly and consumption growth is expected to remain solid.

While Australian Government receipts continue to recover from their GFC trough, their growth continues to be significantly slower than previously expected. The tax-to-GDP ratio in 2013-14 is estimated to be 22.2 per cent, 1.8 percentage points lower than the average of the five years prior to the GFC of 24.0 per cent.

Table 1: Australian Government general government receipts

	Actuals		Estimates			Projections	
	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Total taxation receipts ($b)	**280.8**	**309.9**	**326.3**	**354.9**	**377.8**	**405.8**	**431.5**
Growth on previous year (%)	7.6	10.4	5.3	8.8	6.5	7.4	6.3
Per cent of GDP	20.0	21.0	21.5	22.2	22.5	23.0	23.2
Tax receipts excluding GST ($b)	**235.0**	**263.9**	**278.6**	**304.6**	**324.9**	**350.0**	**372.8**
Growth on previous year (%)	8.3	12.3	5.6	9.3	6.7	7.7	6.5
Per cent of GDP	16.7	17.9	18.3	19.1	19.4	19.8	20.0
Non-taxation receipts ($b)	**21.2**	**19.9**	**24.1**	**21.1**	**23.4**	**23.1**	**22.1**
Growth on previous year (%)	-10.6	-5.9	21.0	-12.3	10.8	-1.3	-4.2
Per cent of GDP	1.5	1.4	1.6	1.3	1.4	1.3	1.2
Total receipts ($b)	**302.0**	**329.9**	**350.4**	**376.0**	**401.2**	**428.9**	**453.6**
Growth on previous year (%)	6.1	9.2	6.2	7.3	6.7	6.9	5.8
Per cent of GDP	21.5	22.4	23.0	23.5	23.9	24.3	24.4

Total receipts, including non-tax receipts, have been revised down by $16.6 billion in 2012-13, $16.6 billion in 2013-14 and $47.8 billion over the four years to 2015-16 (see Table 4). Relative to the 2012-13 MYEFO, tax receipts have been revised down by $12.9 billion in 2012-13, $16.5 billion in 2013-14, and $46.7 billion over the four years to 2015-16 (Table 2).

Table 2: Reconciliation of Australian Government general government taxation receipts from the 2012-13 Budget and the 2012-13 MYEFO

	Estimates			Projections
	2012-13	2013-14	2014-15	2015-16
	$m	$m	$m	$m
Tax receipts at 2012-13 Budget	**343,107**	**371,409**	**392,852**	**415,459**
Changes from 2012-13 Budget to 2012-13 MYEFO	-3,897	-16	-3,616	-3,921
Tax receipts at 2012-13 MYEFO	**339,209**	**371,393**	**389,236**	**411,538**
Changes from 2012-13 MYEFO to 2013-14 Budget				
Effect of policy decisions	-58	93	5,341	8,986
Effect of parameter and other variations	-12,855	-16,633	-16,825	-14,714
Total variations	-12,912	-16,539	-11,485	-5,729
Tax receipts at 2013-14 Budget	**326,297**	**354,854**	**377,751**	**405,809**

Abstracting from policy decisions, tax receipts excluding GST have been revised down by $12.3 billion in 2012-13, $15.9 billion in 2013-14 and $58.2 billion over the four years to 2015-16 (Table 3) relative to the 2012-13 MYEFO. Company tax is the single largest contributor to the write-downs. Lower than expected capital gains tax and resource rent taxes have compounded the fall in company tax receipts.

The lower estimated carbon price is expected to reduce receipts from the carbon pricing mechanism when it moves to a floating price. The largest impact is in 2015-16 with a smaller impact in 2013-14 and 2014-15 associated with advance auctions of permits. The prices received at advance auctions of floating price permits, commencing in 2013-14, are expected to reflect average EU-ETS market futures prices. The budgetary impact of lower carbon price receipts are largely offset by policy changes and estimates variations associated with the *Clean Energy Future Plan* (see Box 2 of Budget Statement 3).

Table 3: Reconciliation of Australian Government general government taxation receipts excluding GST from the 2012-13 MYEFO

	Estimates			Projections
	2012-13	2013-14	2014-15	2015-16
	$m	$m	$m	$m
Tax receipts excluding GST at 2012-13 MYEFO	**290,959**	**320,393**	**335,536**	**355,138**
Changes from 2012-13 MYEFO to 2013-14 Budget				
Effect of policy decisions	-57	94	5,332	8,957
Effect of parameter and other variations	-12,306	-15,884	-15,936	-14,085
Total variations	**-12,362**	**-15,789**	**-10,605**	**-5,129**
Tax receipts excluding GST at 2013-14 Budget	**278,597**	**304,604**	**324,931**	**350,009**

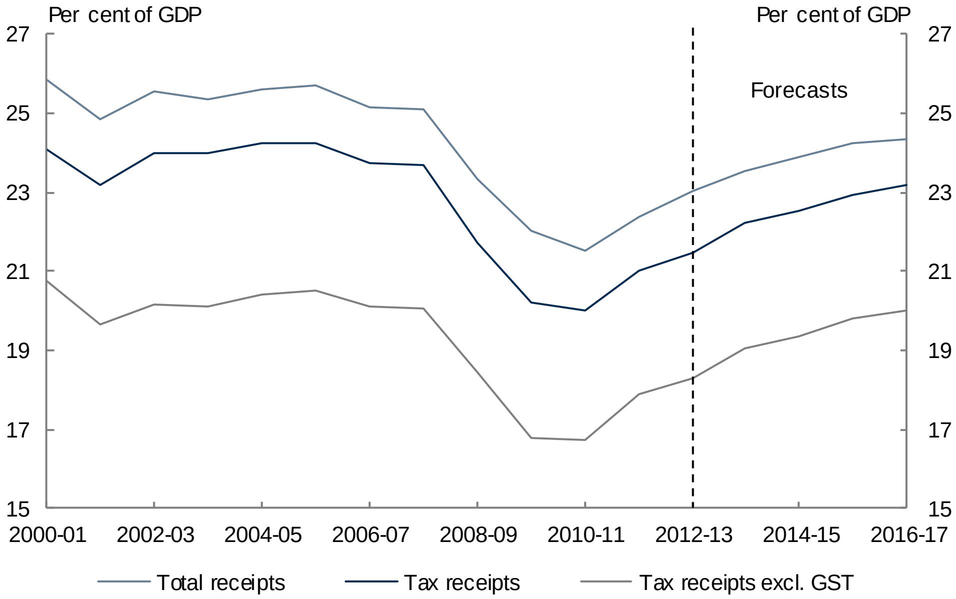
The revenue position has been enhanced by a range of measures, including increasing the Medicare levy to help fund DisabilityCare Australia, protecting the integrity of the income tax base, improving the sustainability of the superannuation system and better targeting tax expenditures. Collectively, policy measures add $14.4 billion to tax receipts over the four years to 2015-16 (see Table 2).

THE TAX-TO-GDP RATIO

In addition to lower nominal GDP, lower than forecast tax collections in 2012-13 have resulted in the expectation of less tax per dollar of GDP. This is expected to impact the tax-to-GDP ratio in 2013-14 and across the forward estimates. Indeed, tax receipts as a share of GDP are expected to remain well below pre-GFC levels over the entire forward estimates period. Over the five years to 2012-13, the average tax-to-GDP ratio is expected to be 20.9 per cent, lower than any period since the five years ending in 1995-96.

If the tax-to-GDP ratio was the same as it was in 2007-08 (23.7 per cent), the year immediately prior to the GFC, tax receipts would be around $24 billion higher in 2013-14 alone.

Chart 1: Tax-to-GDP ratio



Source: Treasury.

Box 1: Tax composition

The aggregate movement in total taxes as a proportion of GDP is the consequence of a series of movements in all heads of revenue relative to GDP. To understand these movements, taxes can be disaggregated into three broad categories: corporate, individuals and non-corporate, and indirect.

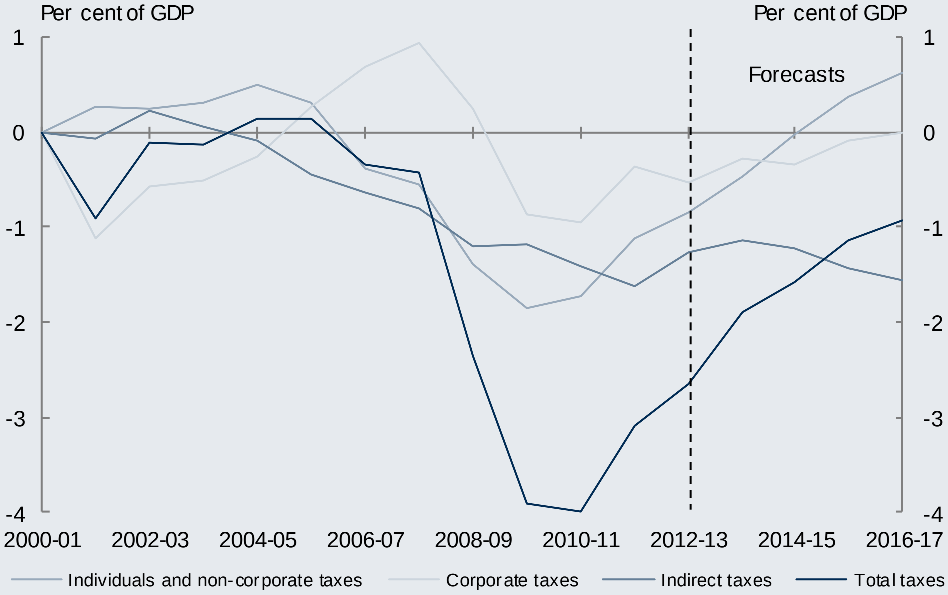
Chart A shows the change in the level of tax receipts as a proportion of GDP for these three categories. In the years 2000-01 to 2007-08, total taxes were relatively steady as a proportion of GDP, at around 24 per cent. Following the global financial crisis (GFC), total taxes as a proportion of GDP fell by 3.7 percentage points to be 20.0 per cent of GDP in 2010-11. Since 2010-11, total taxes have recovered approximately one third of the loss and are forecast to remain well below pre-GFC levels as a proportion of GDP.

Corporate taxes (which include company tax, superannuation funds tax and resource rent taxes) rose steadily from 2001-02 to a record high of 6.4 per cent of GDP in 2007-08. During the GFC these taxes declined by around 2 per cent of GDP and are expected to recover around half of this loss by 2016-17.

Reductions in personal income tax rates dominate movements in individuals and non-corporate taxes (gross income tax withholding, other individuals, individuals' refunds and fringe benefits tax) until the GFC. By 2016-17, they are expected to recover to around their share of GDP in the early 2000s.

Most of the reduction in indirect taxes (GST, excise, carbon pricing mechanism, customs, luxury car tax, wine equalisation tax and other indirect taxes) occurred prior to the GFC. By 2016-17, collections of indirect taxes are expected to contribute more than one and a half per cent of GDP less than they did at the start of this period.

Chart A: Change in level of taxes as a proportion of GDP relative to 2000-01



Source: Treasury.

Nominal GDP and tax receipts

The recent weakness in nominal GDP growth reflects the sharp fall in the terms of trade in the second half of 2012 and weaker than expected domestic price growth. The terms of trade fell 12.9 per cent through the year to the December quarter 2012, owing to a 20.9 per cent decline in prices for non-rural commodity exports. Although commodity prices recovered somewhat in the March quarter, they are expected to gradually decline in trend terms over the forecast period, in line with increasing global supply.

Movements in Australia's exchange rate and terms of trade are typically closely related and it is unusual for the Australian dollar to remain broadly unchanged while the terms of trade fall. The Australian dollar has appreciated strongly in response to the terms of trade boom, rising from less than US$0.50 in 2001 to a peak of over US$1.10 in the middle of 2011, and appreciating around 50 per cent in the past four years alone. Yet, while the terms of trade have fallen sharply in the past two years, with non-rural bulk commodity prices now around 35 per cent below their peak, the Australian dollar has remained relatively stable and high.

As discussed in Budget Statement 2, the unusual combination of a persistently high Australian dollar and lower terms of trade is having an acute and enduring effect on profits and prices growth across the economy. The high Australian dollar has implications for tax receipts. It reduces income and demand for goods and services of trade exposed businesses, thereby lowering profitability across the economy. As profits fall, so too will taxes on companies, resource rents and capital gains. The effects also flow through to taxes on wages and consumption.

The combination of weaker commodity prices and weak domestic price growth has hit company profits across most sectors of the economy, including the resources sector. Over the past 18 months, corporate gross operating surplus (GOS), the National Accounts measure of corporate profitability, has fallen by almost the same amount as during the early 1990s recession and the GFC, albeit over a longer period of time.

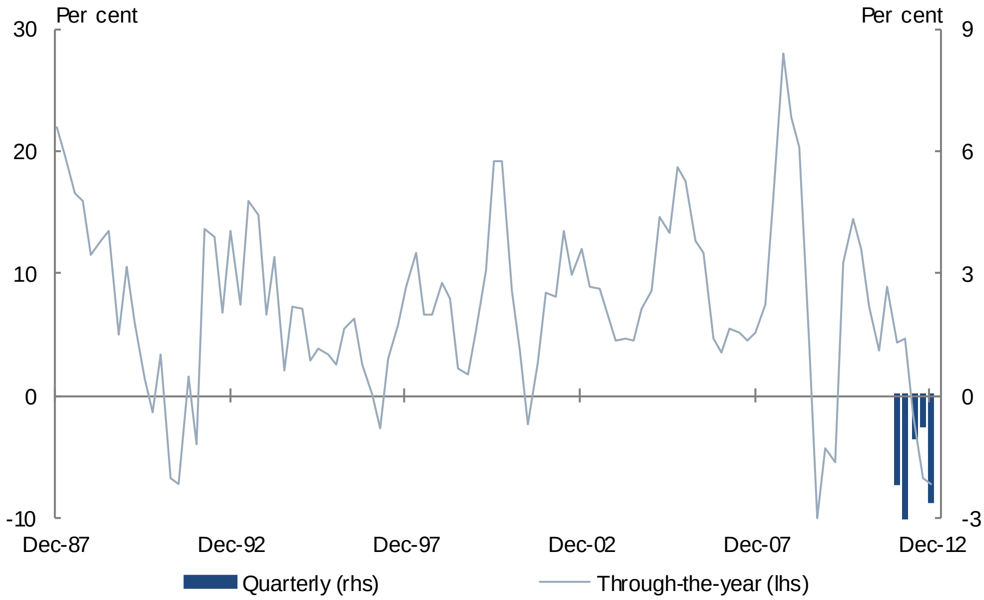
During the early 1990s recession, corporate GOS fell by 11.2 per cent over two quarters. During the GFC in 2008-09, corporate GOS fell by 10.2 per cent again over two quarters. Currently, corporate GOS has fallen in each of the last five quarters (September 2011 to December 2012), by a cumulative total of around 9.2 per cent, a slower, but comparably sized fall (see Chart 2). This is the first time in the history of the quarterly National Accounts (beginning in 1959) that corporate GOS has fallen in more than three consecutive quarters.

The weaker growth in corporate profits is a significant factor in the slower recovery in nominal GDP growth over the forward estimates.

This lingering moderation in corporate profits (and hence likely tax collections) combined with the impact of large shortfalls in year-to-date actual collections for company taxes have resulted in large downward revisions to expected tax receipts in

2012-13 and over the forward estimates. Company taxes have been revised down by around $5.2 billion in 2012-13 and $7.2 billion in 2013-14. In comparison, the outcome for 2008-09 company tax receipts was $11.3 billion lower than forecast at the 2008-09 Budget, the last budget before the GFC. The fall in company taxes has been compounded by resource rent taxes which have been revised down by around $3.6 billion in 2012-13 and $3.2 billion in 2013-14.

Chart 2: Growth in corporate GOS



Source: ABS cat. no. 5206.0.

Capital gains tax and the stock of losses from the GFC

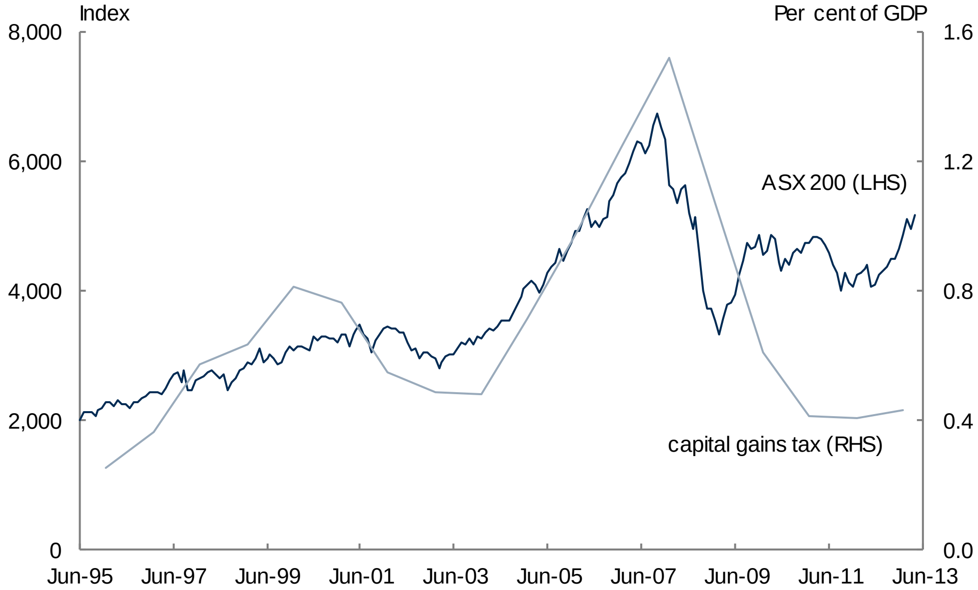
Total capital gains tax (CGT) receipts have been revised down by $1.8 billion in 2012-13 and $9.9 billion in the four years to 2015-16. While CGT is expected to recover over the forward estimates, the recovery is slower than projected at the 2012-13 MYEFO and CGT remains lower over the whole forward estimates period than its pre-GFC peak.

CGT is affected by factors such as asset price movements, the rate at which capital gains are realised and the extent to which any prior capital losses are used to offset gains. In addition, capital gains realised by individuals and superannuation funds are generally subject to a discount of one half and one third respectively. Stock market indices and land values are assumed to grow in line with nominal GDP in the future.

Forecasting CGT is very difficult for several reasons. Price movements above or below the assumption may cause CGT to be significantly different from the forecast. Also, following the GFC, a large stock of capital losses were carried forward (see Box 2 of Statement 5 of the 2010-11 Budget), and the utilisation of these losses generates large uncertainty in the forecasts, particularly as many of these losses are held within trust structures. Finally, historical information regarding CGT is only available from income tax returns, which arrive with a lag of one to two years, making estimation more difficult than for many heads of revenue. This has been an important factor in the current forecasts, where the 2011-12 estimate for CGT (which forms the starting base for the 2012-13 estimate) has been revised down by around $400 million since the 2012-13 MYEFO. The downward revision to CGT in 2012-13 is partly based on recent tax return data from the 2011-12 income year, which shows that net capital gains income from individuals fell by around 20 per cent, the second-lowest growth rate since 1994-95.

While asset prices have recovered since the 2012-13 MYEFO, they remain well below pre-GFC levels. The ASX 200 at the beginning of May 2013 stood at around 5200 compared to the peak in November 2007 at around 6800. In addition, a large stock of capital losses is expected to continue to weigh on CGT over the forward estimates, affecting other individuals, superannuation funds and company tax.

Chart 3: Slow recovery in capital gains tax[(a)]



(a) Yearly CGT amounts have been ascribed to the mid-point of each fiscal year (January 1).
Source: RBA and Treasury.

Box 2: Comparison of the tax-to-GDP ratio over two downturns

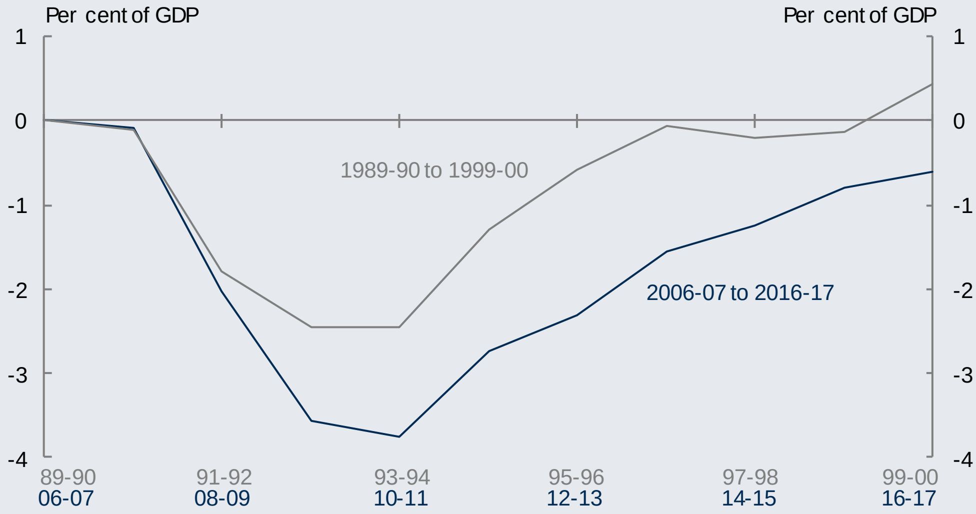
Although the tax-to-GDP ratio fell dramatically in both the recession of the early 1990s and the global financial crisis (GFC), there are key differences between the revenue responses to the two downturns.

The recession of the early 1990s was characterised by general weakness in the real economy, as evidenced by high unemployment. Taxes fell by 2.3 percentage points of GDP over two years, from 22.3 per cent in 1990-91 to 20.0 per cent in 1992-93.

By contrast, during the GFC, Australia's real economy slowed, but still grew much more strongly than in the early 1990s recession. International and domestic share markets, in contrast, collapsed. The recent crisis can also be characterised by less buoyant global growth, the high Australian dollar and deleveraging by companies and households. Taxes fell by 3.5 per cent of GDP in two years, from 23.7 per cent in 2007-08 to 20.2 per cent in 2009-10.

Comparing the tax responses illustrates the differences between the two events. Individuals' income tax, excluding capital gains tax (CGT), contributed nearly 65 per cent of the fall in the 1990s recession, but only 25 per cent of the fall following the GFC. Indirect taxes contributed over 30 per cent of the previous decline, but only 11 per cent of the recent fall. By contrast, petroleum resource rent tax and taxes on companies and superannuation funds contributed only 6 per cent of the previous decline, but over half of the recent decline.

Chart A: Changes in the tax-to-GDP ratio through the 1990s recession and the GFC



Source: Treasury.

Box 2: Comparison of the tax-to-GDP ratio over two downturns (continued)

A major component of the differences is CGT. In the 1980s and early 1990s, CGT was a new, immature tax which had a negligible effect on the tax-to-GDP ratio. By 2008, CGT was large and volatile and was responsible for over a quarter of the decline, as a component of taxes on individuals, companies and superannuation funds.

The different drivers of these two large falls in the tax-to-GDP ratio mean that the recoveries will also be different. While the first year of the recovery, in 2011-12, was broadly comparable to the 1990s recovery, the second year, 2012-13, has not matched the recovery in the tax-to-GDP ratio seen in 1995-96. A key variable is the timing of the recovery in CGT, which has so far remained weak due to tepid growth in asset prices and a large stock of capital losses still to be utilised, reflecting the maturity of the system compared to the 1990s.

VARIATIONS IN RECEIPTS ESTIMATES

Table 4 reconciles the 2013-14 Budget's total receipts estimates with those at the 2012-13 Budget and the 2012-13 MYEFO. Since the 2012-13 MYEFO, total receipts have been revised down by $47.8 billion in the four years to 2015-16, reflecting a downward revision of $63.1 billion from parameter and other variations, partly offset by $15.3 billion of policy decisions.

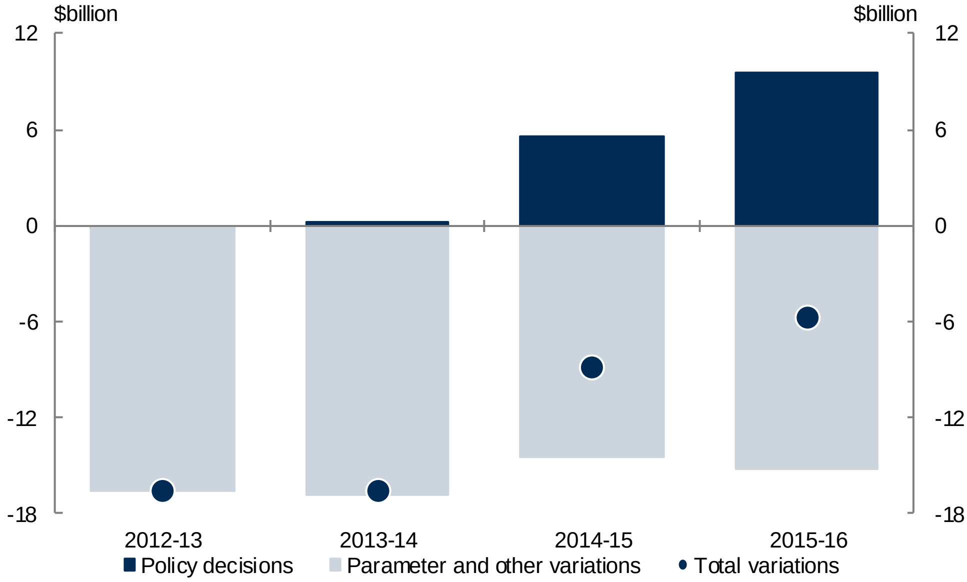
Table 4: Reconciliation of Australian Government general government receipts estimates from the 2012-13 Budget and the 2012-13 MYEFO[(a)]

	Estimates			Projections
	2012-13	2013-14	2014-15	2015-16
	$m	$m	$m	$m
Receipts at 2012-13 Budget	**368,774**	**392,544**	**413,618**	**438,373**
Changes from 2012-13 Budget to 2012-13 MYEFO				
Effect of policy decisions	1,821	6,176	2,635	2,209
Effect of parameter and other variations	-3,554	-6,125	-6,211	-5,958
Total variations	**-1,733**	**51**	**-3,576**	**-3,749**
Receipts at 2012-13 MYEFO	**367,041**	**392,595**	**410,042**	**434,625**
Changes from 2012-13 MYEFO to 2013-14 Budget				
Effect of policy decisions	-56	255	5,603	9,521
Effect of parameter and other variations	-16,575	-16,857	-14,475	-15,215
Total variations	**-16,631**	**-16,601**	**-8,872**	**-5,694**
Receipts at 2013-14 Budget	**350,410**	**375,993**	**401,171**	**428,931**

(a) Includes expected Future Fund earnings.

Since the 2012-13 MYEFO, tax receipts have been revised down by $16.5 billion in 2013-14 and $46.7 billion over the four years to 2015-16. Excluding GST, tax receipts have been revised down by $15.8 billion in 2013-14 and by $43.9 billion over the four years to 2015-16.

Chart 4: Revisions to total receipts estimates since the 2012-13 MYEFO



Source: Treasury.

Effect of parameter and other variations

Variations in receipts can stem from either policy changes or parameter and other variations — that is, recent economic conditions, the updated economic outlook, year-to-date collections, and other non-policy factors. This section discusses variations in receipts from parameter and other variations, while policy changes are covered in the next section.

The receipts forecasts are based on the economic outlook presented in Budget Statement 2, with changes in nominal incomes and spending, including changes in their composition, having consequential impacts on expected tax receipts. The key economic parameters that influence receipts are shown in Table 5. Analysis of the sensitivity of the tax receipts estimates to changes in the economic outlook is provided in Budget Statement 3 (Appendix A).

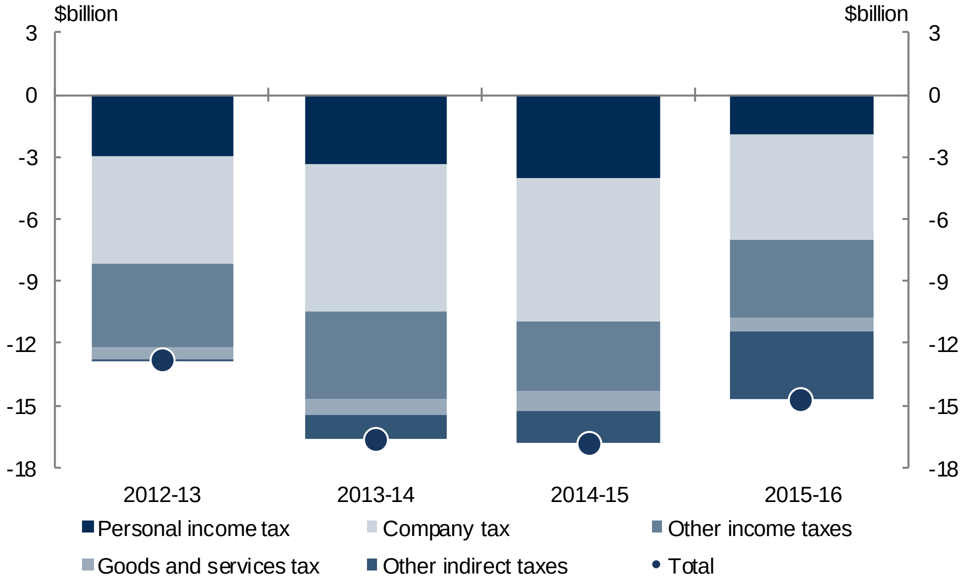
Table 5: Key economic parameters[(a)]

	Estimates			Projections	
	2012-13	2013-14	2014-15	2015-16	2016-17
Revenue parameters at 2013-14 Budget					
Nominal gross domestic product (non-farm)	3 1/4	5	5	5 1/4	5 1/4
Change since 2012-13 MYEFO	*-1*	*- 1/2*	*- 1/4*	*0*	*na*
Compensation of employees (non-farm)(b)	4 3/4	5 3/4	5	5 1/2	5 1/2
Change since 2012-13 MYEFO	*- 3/4*	*3/4*	*- 1/2*	*0*	*na*
Corporate gross operating surplus(c)	-3	4 1/2	5 1/2	5 1/4	5 1/4
Change since 2012-13 MYEFO	*-4 1/4*	*-2 1/4*	*3/4*	*0*	*na*
Unincorporated business income	2 1/4	2 3/4	3 3/4	5 1/4	5 1/4
Change since 2012-13 MYEFO	*-3 1/2*	*-2*	*-1 1/2*	*0*	*na*
Property income(d)	-2 3/4	1 1/4	7	5 1/2	5 1/2
Change since 2012-13 MYEFO	*-6 1/4*	*-5 1/4*	*1 1/2*	*0*	*na*
Consumption subject to GST	3 3/4	4 1/4	4 1/2	5 1/2	5 1/2
Change since 2012-13 MYEFO	*-1 1/2*	*- 1/2*	*-1*	*0*	*na*

(a) Current prices, per cent change on previous years. Changes since the 2012-13 MYEFO are percentage points and may not reconcile due to rounding.
(b) Compensation of employees measures total remuneration earned by employees.
(c) Corporate GOS is an Australian National Accounts measure of company profits, gross of depreciation.
(d) Property income measures income derived from rent, dividends, and interest.
na not applicable.

Relative to the 2012-13 MYEFO, parameter and other variations have reduced tax receipts by $12.9 billion in 2012-13, $16.6 billion in 2013-14, and $61.0 billion over the four years to 2015-16 (Chart 5). Parameter and other variations have reduced tax receipts, excluding GST, by $12.3 billion in 2012-13, $15.9 billion in 2013-14, and $58.2 billion over the four years to 2015-16.

Chart 5: Parameter and other variations to tax receipts since the 2012-13 MYEFO



Source: Treasury.

Company tax is the single largest contributor to the write-downs in tax receipts. Lower than expected CGT and resource rent taxes have compounded the fall in company tax receipts.

- Of this, company tax receipts account for $5.2 billion in 2012-13, $7.2 billion in 2013-14 and $24.3 billion over the four years to 2015-16. This reflects lower than expected company profitability across most sectors of the economy. Lags in the company tax system mean that lower profitability in 2012-13 will be felt across a number of years.

- Gross resource rent taxes, comprised of the minerals resource rent tax (MRRT) and the petroleum resource rent tax (PRRT), have been written-down significantly compared to the 2012-13 MYEFO. Resource rent taxes are expected to be $3.6 billion lower in 2012-13 and $3.2 billion in 2013-14. These taxes are highly sensitive to the assumptions regarding production volumes, capital deductions, commodity prices and the exchange rate.

  – While MRRT receipts have been much lower than expected in 2012-13, they are expected to grow over the forward estimates. MRRT receipts will be supported by very strong increases in production volumes as the economy transitions from the investment phase of the mining boom towards a record expansion in resources production and exports (iron ore exports are expected to grow by around 40 per cent from 2012-13 to 2016-17). In addition, capital expenditure — which can be immediately written off for MRRT purposes — is expected to be lower than projected at the 2012-13 MYEFO (see Budget Statement 2, Box 8).

  – Net MRRT receipts are expected to be around $1.8 billion lower in 2012-13 and $1.7 billion lower in 2013-14.

  – PRRT receipts are expected to be weaker across the entire forward estimates, reflecting in part a softening in petroleum prices and lower assumed production levels across a number of relevant fields.

- CGT, which is an important component of taxes on individuals, companies and superannuation funds, is expected to be lower by $1.8 billion in 2012-13 and $2.9 billion in 2013-14, reflecting the continuing utilisation of a large amount of capital losses.

Compared to the 2012-13 MYEFO, carbon pricing mechanism (CPM) receipts are expected to be $140 million higher in 2012-13, largely owing to lower free permit allocations offsetting reduced carbon emissions. Receipts are expected to be $530 million lower in 2013-14; largely reflecting downward revisions to forecast emissions, and the lower international carbon price associated with the advance auctions of permits.

Indirect taxes, excluding CPM, have been revised down by around $760 million in 2012-13, largely reflecting a $515 million write-down of GST and a $900 million downgrade in excise receipts, partly offset by higher customs duties. Indirect taxes, excluding CPM, have been revised down by around $1.4 billion in 2013-14 and $5.2 billion over the four years to 2015-16.

Since the 2012-13 MYEFO, non-tax receipts (including Future Fund earnings) have declined by $3.7 billion in 2012-13, largely reflecting the deferral of receipts relating to the digital dividend and lower interest receipts. The timing of final digital dividend payments was changed in response to industry concern about paying for both the reissue of expiring spectrum licences and spectrum licences won at the digital dividend auction within a short period of time. Non-tax receipts have been revised down by $224 million in 2013-14, reflecting lower interest receipts largely offset by higher dividend receipts.

Effect of policy decisions

Policy decisions since the 2012-13 MYEFO are expected to increase receipts by $255 million in 2013-14, $5.6 billion in 2014-15, $9.5 billion in 2015-16 and $10.1 billion in 2016-17. These decisions include: increasing the Medicare levy to help fund *DisabilityCare Australia*, protecting the integrity of the income tax base, improving the sustainability of the superannuation system and better targeting tax expenditures.

The Medicare levy will be increased by half a percentage point from 1 July 2014 to provide strong and stable funding for *DisabilityCare Australia*. This is expected to increase tax receipts by $11.4 billion over the forward estimates period. All of the monies raised by the additional levy will go directly to the *DisabilityCare Australia* Fund. This fund is expected to generate $467 million in non-tax receipts over the forward estimates period. To assist with establishing *DisabilityCare Australia*, the Government will make a share of the *DisabilityCare Australia* Fund available to States and Territories.

The Budget also contains measures to protect the integrity of the income tax base and promote better tax compliance, including the following.

- The *Protecting the corporate tax base from erosion and loopholes* package contains a series of measures to address abuses that take advantage of design flaws, vulnerabilities and unexpected interactions in the corporate tax law from changes made in the early 2000s. This package is expected to increase tax receipts by $4.1 billion over the forward estimates period.

- Providing additional resources to the Australian Taxation Office (ATO) to expand data matching with third party information. This is expected to increase tax receipts by $432 million over the forward estimates period.

- Providing additional resources to the ATO to address risks to the tax system from exploitation of trust structures. This is expected to increase tax receipts by $217 million over the forward estimates period.

Other key revenue measures include the following.

- Deferring the *Clean Energy Future* personal income tax cuts that were scheduled to commence on 1 July 2015. These tax cuts were designed to assist households with the effects of an increase in the carbon price from $25.40 in 2014-15 to $29 in 2015-16. The carbon price in 2015-16 is now projected to be lower ($12.10) than the fixed price in 2014-15. As a result, households will not experience the impact of an additional rise in the carbon price and the 2015-16 tax cuts will be deferred until the carbon price in the Budget is estimated to rise above $25.40. This is currently projected to occur in 2018-19. Households will receive more assistance than was anticipated to be necessary to assist them with the cost of living impact of the carbon price in 2015-16. This measure is expected to increase tax receipts by $1.5 billion over the forward estimates period.

- Better targeting support for research and development (R&D) by limiting access to the R&D tax incentive so that it only applies to companies with annual aggregate Australian turnover of less than $20 billion from 1 July 2013. This is estimated to increase tax receipts by $1.1 billion over the forward estimates period.

- Extending the requirement to make monthly pay-as-you-go (PAYG) income tax instalments to include all large entities in the PAYG instalment system, including trusts, superannuation funds, sole traders and large investors. This measure is expected to have a gain to tax receipts of $1.4 billion over the forward estimates period.

- Phasing out the Net Medical Expenses Tax Offset as reforms to aged care are implemented and DisabilityCare Australia is introduced. All existing claimants will be grandfathered for two years, and claims for aged care, disability aids and attendant care will be allowed through until 30 June 2019. This is estimated to increase tax receipts by $968 million over the forward estimates period.

- Restructuring the Import Processing Charge to recover the costs of all import related cargo and trade functions undertaken by the Australian Customs and Border Protection Service. This is expected to increase tax receipts by $674 million over the forward estimates period.

- Simplifying the design and administration of the proposed higher superannuation concessional contributions cap by providing a $35,000 concessional cap to anyone who meets certain age requirements. This is estimated to increase tax receipts by $365 million over the forward estimates period, as the overall receipts cost of providing the higher cap will fall from $1.5 billion to $1.2 billion.

- Better targeting the tax exemption for earnings on superannuation assets supporting retirement income streams, by limiting it to the first $100,000 of annual earnings for each individual, and taxing earnings above that threshold at the concessional rate of 15 per cent. This is expected to increase tax receipts by $356 million over the forward estimates period.

- Indexing tobacco excise to average weekly ordinary time earnings (AWOTE), instead of the CPI. Due to taxpayer confidentiality, this measure has been incorporated into the Budget estimates as a parameter and other variation.

There are also a small number of policy measures since the 2012-13 MYEFO which reduce tax receipts. These include:

- Providing petroleum resource rent taxpayers with certainty regarding the scope of deductible expenditure, following recent litigation. This is expected to reduce receipts by $120 million over the forward estimates period.

- Making the superannuation excess contributions tax system fairer, by taxing excess concessional contributions at an individual's marginal tax rate plus an interest charge, rather than always taxing them at the top marginal tax rate. This is expected to reduce tax receipts by $55 million over the forward estimates period.

Table 6: Revenue policy decisions since the 2012-13 MYEFO (receipts basis)[(a)]

	2012-13	2013-14	2014-15	2015-16	2016-17	Total
	$m	$m	$m	$m	$m	$m
Personal income tax – increase in the Medicare levy – DisabilityCare Australia	-	-	3,342.8	4,011.1	4,463.5	11,817.4
Protecting the corporate tax base from erosion and loopholes						
– addressing aggressive tax structures that seek to shift profits by artificially loading debt into Australia	-	-	190.0	665.0	635.0	1,490.0
– targeting the deduction for exploration to genuine exploration activity	-	100.0	400.0	350.0	250.0	1,100.0
– closing loopholes in the consolidation regime	-	10.0	110.0	185.0	235.0	540.0
– increasing ATO compliance checks on offshore marketing hubs and business restructures	-	-	53.1	120.4	232.5	406.0
– closing loopholes in the Offshore Banking Unit regime	-	20.0	100.0	100.0	100.0	320.0
– improving the integrity of the foreign resident capital gains tax regime	-	-	20.0	20.0	190.0	230.0
Clean Energy Future – deferral of the 2015-16 tax cuts	-	-	-	820.0	670.0	1,490.0
Monthly PAYG instalments – extension to other large entities	-	-	-	900.0	500.0	1,400.0
A Plan for Australian Jobs – Research and Development tax incentive – better targeting	-	-	350.0	400.0	300.0	1,050.0
Personal income tax – net medical expenses tax offset phase out	-	-2.0	175.0	285.0	510.0	968.0
Import Processing Charge – ensuring full cost recovery	-	91.6	188.7	194.2	199.8	674.3
Personal income tax – reforms to work-related self-education expenses (b)	-	-	*	250.0	270.0	520.0
Tax compliance						
– improving compliance through third party reporting and data matching	-	-	67.3	162.7	201.7	431.7
– ATO trusts taskforce	-	4.4	27.9	67.7	117.1	217.1
Superannuation reforms						
– higher concessional contributions cap	-	-195.0	105.0	230.0	225.0	365.0
– reforming the tax exemption for earnings on superannuation assets supporting retirement income streams	-	-	2.0	152.0	202.0	356.0
Carbon unit auction schedule	-	150.0	180.0	-90.0	100.0	340.0
Excise and excise-equivalent customs duty – index tobacco excise to AWOTE	-	nfp	nfp	nfp	nfp	nfp
Other measures	-55.8	76.2	291.6	697.7	745.3	1,755.0
Total impact of revenue measures	**-55.8**	**255.2**	**5,603.4**	**9,520.8**	**10,146.8**	**25,470.5**

(a) Total impact of revenue measures does not include the impact of the tobacco indexation measure which has been incorporated as a parameter variation due to taxpayer confidentiality.
(b) * The nature of the measure is that a reliable estimate cannot be provided.

RECEIPTS GROWTH

Individuals' income and other withholding taxation receipts

Receipts from gross income tax withholding (ITW) have grown over 9 per cent in both 2010-11 and 2011-12. In 2012-13, receipts from ITW are expected to grow by 5.3 per cent ($7.5 billion), reflecting more moderate growth in wages and salaries and tax cuts associated with the *Clean Energy Future Package* announced in the 2011-12 MYEFO. In 2013-14, receipts from ITW are expected to grow by 8.6 per cent ($12.9 billion) as wages growth strengthens. In 2014-15 receipts from ITW are expected to grow by 8.2 per cent ($13.4 billion) partly reflecting the increase in the Medicare levy by half a percentage point from 1 July 2014 to provide strong and stable funding for *DisabilityCare Australia*.

In the projection years, receipts from ITW grow by 7.9 per cent ($13.9 billion) in 2015-16 and 6.6 per cent ($12.6 billion) in 2016-17. The growth in ITW receipts in the projection years returns to trend, reflecting longer-term growth in wages and salaries, consistent with the projection year parameters.

Gross other individuals (OI) receipts are expected to grow by 6.9 per cent ($2.2 billion) in 2012-13, reflecting solid growth in non-wage income. In 2013-14, receipts from OI are expected to grow slower by 3.3 per cent ($1.1 billion), largely due to changes to the tax scales associated with the *Clean Energy Future Package* and the effect of lower nominal GDP growth in 2012-13 on expected instalment payments. From 2014-15 to the end of the forward estimates, receipts from OI are expected to grow above trend as the stock of capital losses are utilised and capital gain income recovers.

Income tax refunds for individuals, which have a negative impact on receipts, are expected to grow by 4.7 per cent ($1.2 billion) in 2012-13, mainly reflecting individuals' income tax assessments for 2011-12. Individuals' refunds are then expected to grow by 0.2 per cent ($50 million) in 2013-14 as a result of weaker expected individuals' income in 2012-13. In the projection years, refunds for individuals are expected to return to longer-term trend growth.

Receipts from fringe benefits tax (FBT) are expected to grow by 3.5 per cent ($129 million) in 2012-13 (following 13 per cent growth in 2011-12), reflecting modest growth in average wages. FBT growth is expected to be 10.6 per cent ($410 million) in 2013-14 and 9.1 per cent ($390 million) in 2014-15, primarily reflecting previously announced policy, particularly the reform of the statutory formula method for valuing car fringe benefits. In the projection years, FBT is expected to return to growth consistent with growth in wages and salaries.

Company and other related income taxation receipts

Company tax is expected to fall by 0.9 per cent ($584 million) in 2012-13, reflecting an expected fall in corporate profitability. In 2013-14, company tax receipts are expected to grow by 8.6 per cent ($5.7 billion), due to the introduction of monthly pay-as-you-go instalments for large companies, as announced at the 2012-13 MYEFO which results in a one-off bring-forward of payments.

Over 2014-15 and the projection years, receipts from company tax are expected to grow by 1.6 per cent ($1.2 billion) in 2014-15, 7.8 per cent ($5.7 billion) in 2015-16 and 5.5 per cent ($4.4 billion) in 2016-17. These varying growth rates also reflect the effect of the pay-as-you-go policy change and the *Protecting the corporate tax base from base erosion and loopholes* package, before returning to more normal rates of growth in line with corporate gross operating surplus projections.

Superannuation funds

Receipts from superannuation funds are expected to grow by 1.6 per cent ($118 million) in 2012-13 and 8.6 per cent ($660 million) in 2013-14, reflecting a modest recovery from the GFC lows in wage and salaries growth and asset prices.

The growth in superannuation fund receipts accelerates in 2014-15 and the projection years as the effect of GFC related losses unwinds and policy changes begin to take effect. These policy reforms include the gradual increase in the Superannuation Guarantee rate from 9 to 12 per cent and the timing effects of the pay-as-you-go policy change. Note that revenue expected to be raised by the Sustaining the Superannuation Contribution Concession has been reclassified to other individuals.

Resource rent taxes

Gross resource rent taxes (comprising MRRT and PRRT) are expected to grow by $1.4 billion in 2013-14 and $400 million in 2014-15. MRRT is expected to increase significantly over the forward estimates reflecting strong volumes and lower capital investment as the economy transitions from the investment phase of the mining boom towards a record expansion in resources production and exports. Net MRRT is expected to grow by $500 million in 2013-14 and $300 million in 2014-15. In the projection years, net MRRT is expected to grow by $400 million in 2015-16 and $800 million in 2016-17.

PRRT receipts are expected to decrease in 2012-13, reflecting in part the ongoing dampening impact of a high exchange rate, a softening in petroleum prices and lower assumed production levels across a number of fields. PRRT receipts are expected to return towards long run trends over the forward estimates, mainly reflecting anticipated cost and production trends.

Goods and services tax

Goods and services tax (GST) receipts are expected to increase by 4.5 per cent ($2.1 billion) in 2012-13. In 2013-14, GST receipts are expected to grow by 5.3 per cent ($2.5 billion) reflecting growth in taxable consumption and dwelling investment. GST receipts are expected to grow by 5.1 per cent ($2.6 billion) in 2014-15 and, in the projection years, 5.6 per cent ($3.0 billion) in 2015-16 and 5.1 per cent ($2.9 billion) in 2016-17.

Excise and customs duty

Receipts from excise are expected to increase by 0.1 per cent ($25 million) in 2012-13, mostly due to diesel excise offset by falls in other categories. In 2013-14, excise receipts are expected to increase by 3.9 per cent ($1.0 billion), partly due to an extra payment day for collections. Receipts in 2014-15 are expected to grow by 1.1 per cent ($290 million) which is lower than trend growth due to fewer collections days than the previous year. In the projection years, excise duties are expected to grow in line with long-term trends.

Customs duties are expected to grow by 20.9 per cent ($1.5 billion) in 2012-13, reflecting strength in excise-like goods. In 2013-14, customs duty receipts are expected to grow by 4.3 per cent ($360 million), reflecting strength in most sources of customs duty. In 2014-15, customs duty is expected to increase by 1.7 per cent ($150 million), reflecting strength in most sources of duty, but offset by a reduction in the rate of duty applied to textiles, clothing and footwear. Customs duties are expected to return to more normal rates of growth in 2016-17.

Carbon pricing mechanism

Receipts from the carbon pricing mechanism are expected to grow by around 50 per cent in 2013-14 largely reflecting the arrangements for sales of permits under the fixed-price and floating-price periods, and that 2012-13 is the first year of the mechanism. The 2013-14 receipts capture the wash-up payments for 2012-13 fixed-price permits, the progressive payment for 2013-14 fixed-price permits, and the commencement of auctions of floating price permits for the years 2015-16 and 2016-17.

Following modest growth in 2014-15, carbon pricing mechanism receipts are expected to fall 27 per cent in 2015-16 following the end of the fixed price period in 2014-15 and the link to the European price in 2015-16. Receipts are projected to fall a further 27 per cent in 2016-17 largely because there are no longer any fixed-price receipts.

Non-taxation receipts

Non-taxation receipts (including Future Fund earnings) are expected to increase by 21 per cent ($4.2 billion) in 2012-13, and decrease by 12.3 per cent ($3.0 billion) in 2013-14. The increase in 2012-13 is largely a consequence of the sale of 15 year licences of 800MHz spectrum and changed arrangements for unclaimed superannuation funds and unclaimed company, bank account and life insurance monies.

Table 7: Australian Government general government (cash) receipts

	Actual	Estimates			Projections	
	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
	$m	$m	$m	$m	$m	$m
Individuals' and other withholding taxes						
Gross income tax withholding	142,770	150,300	163,200	176,600	190,500	203,100
Gross other individuals	31,141	33,300	34,400	38,400	43,200	47,900
less: Refunds	25,537	26,750	26,800	28,350	30,250	32,100
Total individuals' and other withholding tax	148,373	156,850	170,800	186,650	203,450	218,900
Fringe benefits tax	3,731	3,860	4,270	4,660	5,000	5,310
Company tax	66,584	66,000	71,650	72,800	78,450	82,800
Superannuation funds	7,562	7,680	8,340	10,040	12,650	14,050
Resource rent taxes(a)	1,463	1,710	3,100	3,500	4,210	5,300
Income taxation receipts	**227,714**	**236,100**	**258,160**	**277,650**	**303,760**	**326,360**
Sales taxes						
Goods and services tax	45,861	47,918	50,443	53,019	56,009	58,890
Wine equalisation tax	708	720	770	810	860	910
Luxury car tax	435	430	400	360	390	420
Total sales taxes	47,004	49,068	51,613	54,189	57,259	60,220
Excise duty						
Petrol	6,036	6,000	5,900	5,850	5,900	6,000
Diesel	8,231	8,600	9,100	9,200	9,400	9,700
Beer	1,938	1,950	2,020	2,090	2,210	2,330
Other excisable products(b)	9,340	9,020	9,540	9,710	9,840	10,130
of which: Other excisable beverages(c)	909	900	960	1,000	1,050	1,110
Total excise duty receipts	25,545	25,570	26,560	26,850	27,350	28,160
Customs duty						
Textiles, clothing and footwear	655	680	710	560	410	440
Passenger motor vehicles	805	920	920	990	1,060	1,140
Excise-like goods(b)	4,307	5,660	5,850	6,010	6,220	6,510
Other imports	1,440	1,530	1,600	1,670	1,790	1,910
less: Refunds and drawbacks	212	330	260	260	260	260
Total customs duty receipts	6,996	8,460	8,820	8,970	9,220	9,740
Carbon pricing mechanism	-	4,160	6,265	6,395	4,645	3,395
Other indirect taxation						
Agricultural levies	421	463	443	434	440	446
Other taxes	2,263	2,476	2,992	3,263	3,136	3,173
Total other indirect taxation receipts	2,684	2,939	3,436	3,697	3,575	3,619
Indirect taxation receipts	**82,229**	**90,197**	**96,694**	**100,101**	**102,049**	**105,134**
Taxation receipts	**309,943**	**326,297**	**354,854**	**377,751**	**405,809**	**431,494**
Sales of goods and services	7,778	9,043	8,639	8,409	8,562	8,726
Interest received	4,267	3,674	4,074	4,055	4,575	4,837
Dividends	1,789	3,186	2,526	2,317	2,520	2,571
Other non-taxation receipts	6,098	8,211	5,901	8,638	7,464	6,015
Non-taxation receipts	**19,931**	**24,113**	**21,140**	**23,419**	**23,121**	**22,149**
Total receipts	**329,874**	**350,410**	**375,993**	**401,171**	**428,931**	**453,642**
Memorandum:						
Capital gains tax(d)	*6,000*	*6,600*	*8,100*	*11,100*	*13,600*	*15,900*
Medicare levy receipts	*9,119*	*9,720*	*10,300*	*14,190*	*15,230*	*16,200*

(a) Comprises gross receipts from the PRRT and MRRT. Net receipts from the MRRT are expected to be $0.2 billion in 2012-13, $0.7 billion in 2013-14, $1.0 billion in 2014-15, $1.4 billion in 2015-16 and $2.2 billion in 2016-17 which represent the net receipt impact across different revenue heads. These include offsetting reductions in company tax (through deductibility) and interactions with other taxes.
(b) Tobacco estimates are not separately reported due to taxpayer confidentiality. See Budget Statement 9, note 3, footnote (b) for more information.
(c) Other excisable beverages are those not exceeding 10 per cent by volume of alcohol (excluding beer, brandy and wine).
(d) Capital gains tax is part of other individuals, companies and superannuation funds tax. The 2011-12 reported figure is an estimate.

Revenue variations since the 2012-13 MYEFO

The revenue estimates are the accrual accounting equivalent of the cash-based receipts estimates. Changes in revenue are generally driven by the same factors — policy as well as parameter variation — as receipts. Where the revenue and receipts estimates tend to vary is in terms of the timing of their impacts.

Table 8 provides a reconciliation of the Budget's revenue estimates with those at the 2012-13 MYEFO.

Table 8: Reconciliation of total Australian Government general government revenue estimates from the 2012-13 MYEFO

	Estimates			Projections
	2012-13	2013-14	2014-15	2015-16
	$m	$m	$m	$m
Revenue at 2012-13 MYEFO	**373,739**	**403,161**	**421,871**	**446,438**
Changes from 2012-13 MYEFO to 2013-14 Budget				
Effect of policy decisions(a)	-36	111	5,533	9,766
Effect of parameter and other variations	-13,742	-15,523	-15,792	-18,108
Total variations	**-13,778**	**-15,412**	**-10,260**	**-8,342**
Revenue at 2013-14 Budget	**359,961**	**387,749**	**411,612**	**438,097**

(a) Excludes secondary impacts on public debt interest of policy decisions and offsets from the contingency reserve for decisions taken.

Since the 2012-13 MYEFO, total revenue has been revised down by $15.4 billion in 2012-13 and by $10.3 billion in 2013-14. The factors affecting downward revisions to tax receipts are also at play with regards to revenue write-downs.

Table 9: Australian Government general government (accrual) revenue

	Actual	Estimates			Projections	
	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
	$m	$m	$m	$m	$m	$m
Individuals' and other withholding taxes						
Gross income tax withholding	143,978	151,660	164,660	178,100	192,120	204,820
Gross other individuals	32,992	35,940	37,490	41,580	46,640	51,580
less: Refunds	25,537	26,750	26,800	28,350	30,250	32,100
Total individuals' and other withholding tax	151,433	160,850	175,350	191,330	208,510	224,300
Fringe benefits tax	3,964	3,890	4,320	4,740	5,080	5,390
Company tax	66,726	68,132	73,969	74,860	80,666	85,213
Superannuation funds	7,852	7,800	8,480	10,210	12,850	14,270
Resource rent taxes(a)	1,293	1,740	3,420	3,530	4,180	5,340
Income taxation revenue	**231,268**	**242,412**	**265,539**	**284,670**	**311,286**	**334,513**
Sales taxes						
Goods and services tax	48,849	50,220	53,080	55,760	58,920	61,830
Wine equalisation tax	716	730	780	820	870	920
Luxury car tax	440	430	400	360	390	420
Total sales taxes	50,004	51,380	54,260	56,940	60,180	63,170
Excise duty						
Petrol	6,016	6,000	5,790	5,870	5,920	6,000
Diesel	8,203	8,610	8,920	9,230	9,430	9,710
Beer	1,932	1,950	1,980	2,100	2,220	2,330
Other excisable products(b)	9,329	9,030	9,360	9,750	9,880	10,130
of which: Other excisable beverages(c)	906	900	960	1,000	1,050	1,110
Total excise duty revenue	25,480	25,590	26,050	26,950	27,450	28,170
Customs duty						
Textiles, clothing and footwear	655	680	710	560	410	440
Passenger motor vehicles	903	920	920	990	1,060	1,140
Excise-like goods(b)	4,307	5,660	5,850	6,010	6,220	6,510
Other imports	1,441	1,540	1,610	1,670	1,790	1,910
less: Refunds and drawbacks	202	330	260	260	260	260
Total customs duty revenue	7,105	8,470	8,830	8,970	9,220	9,740
Carbon pricing mechanism	-	7,540	8,340	9,270	4,090	6,110
Other indirect taxation						
Agricultural levies	421	463	443	434	440	446
Other taxes	2,501	2,871	3,202	3,372	3,309	3,446
Total other indirect taxation revenue	2,922	3,335	3,646	3,806	3,748	3,892
Indirect taxation revenue	**85,511**	**96,315**	**101,126**	**105,936**	**104,688**	**111,082**
Taxation revenue	**316,779**	**338,727**	**366,664**	**390,606**	**415,974**	**445,595**
Sales of goods and services	8,106	8,757	8,577	8,443	8,614	8,776
Interest	4,617	3,764	4,313	4,477	4,980	5,448
Dividends	2,662	2,429	2,426	2,265	2,476	2,604
Other non-taxation revenue	5,945	6,284	5,768	5,820	6,052	6,146
Non-taxation revenue	**21,330**	**21,234**	**21,085**	**21,006**	**22,122**	**22,974**
Total revenue	**338,109**	**359,961**	**387,749**	**411,612**	**438,097**	**468,569**
Memorandum:						
Capital gains tax(d)	*6,000*	*6,600*	*8,100*	*11,100*	*13,600*	*15,900*
Medicare levy revenue	*9,119*	*9,720*	*10,300*	*14,190*	*15,230*	*16,200*

(a) Comprises gross revenue from the PRRT and MRRT. Net revenue from the MRRT are expected to be $0.2 billion in 2012-13, $0.7 billion in 2013-14, $1.0 billion in 2014-15, $1.4 billion in 2015-16 and $2.2 billion in 2016-17 which represent the net revenue impact across different revenue heads. These include offsetting reductions in company tax (through deductibility) and interactions with other taxes.
(b) Tobacco estimates are not separately reported due to taxpayer confidentiality. See Budget Statement 9, note 3, footnote (b) for more information.
(c) Other excisable beverages are those not exceeding 10 per cent by volume of alcohol (excluding beer, brandy and wine).
(d) Capital gains tax is part of other individuals, companies and superannuation funds tax. The 2011-12 reported figure is an estimate.

APPENDIX A: PERSONAL INCOME TAX RATES

Table A1: Personal income tax rates[(a)]

	From 1 July 2011		From 1 July 2012		From 1 July 2013		From 1 July 2014	
	Taxable income	Per cent	Taxable income	Per cent	Taxable income	Per cent	Taxable income	Per cent
Residents	$0–$6,000	Nil	$0–$18,200	Nil	$0–$18,200	Nil	$0–$18,200	Nil
	$6,001–$37,000	15	$18,201–$37,000	19	$18,201–$37,000	19	$18,201–$37,000	19
	$37,001–$80,000	30	$37,001–$80,000	32.5	$37,001–$80,000	32.5	$37,001–$80,000	32.5
	$80,001–$180,000	37	$80,001–$180,000	37	$80,001–$180,000	37	$80,001–$180,000	37
	> $180,000	45	> $180,000	45	> $180,000	45	> $180,000	45
Non-residents	$0–$37,000	29						
	$37,001–$80,000	30	$0–$80,000	32.5	$0–$80,000	32.5	$0–$80,000	32.5
	$80,001–$180,000	37	$80,001–$180,000	37	$80,001–$180,000	37	$80,001–$180,000	37
	> $180,000	45	> $180,000	45	> $180,000	45	> $180,000	45
Medicare levy	$0–$19,404	Nil	$0–$20,542	Nil	$0–$20,542	Nil	$0–$20,542	Nil
(for singles)	$19,405-$22,828	10% of > $19,404	$20,543-$24,167	10% of > $20,542	$20,543-$24,167	10% of > $20,542	$20,543-$25,677	10% of > $20,542
	> $22,828	1.5	> $24,167	1.5	> $24,167	1.5	> $25,677	2.0
		Amount		**Amount**		**Amount**		**Amount**
Low Income Tax Offset	$0-$30,000	$1,500	$0-$37,000	$445	$0-$37,000	$445	$0-$37,000	$445
	$30,001-$67,500	less 4% of > $30,000	$37,001-$66,666	less 1.5% of > $37,000	$37,001-$66,666	less 1.5% of > $37,000	$37,001-$66,666	less 1.5% of > $37,000
	> $67,500	Nil	> $66,666	Nil	> $66,666	Nil	> $66,666	Nil

(a) This table includes legislated and announced changes to tax rates and thresholds, excluding temporary changes such as the Temporary Flood and Cyclone Reconstruction Levy in 2011-12.

APPENDIX B: CHANGES SINCE THE 2012-13 MYEFO

Table B1: Reconciliation of 2012-13 general government (cash) receipts

	Estimates		Change on MYEFO	
	MYEFO $m	Budget $m	$m	%
Individuals' and other withholding taxes				
Gross income tax withholding	151,300	150,300	-1,000	-0.7
Gross other individuals	35,000	33,300	-1,700	-4.9
less: Refunds	26,500	26,750	250	0.9
Total individuals' and other withholding taxation	159,800	156,850	-2,950	-1.8
Fringe benefits tax	3,970	3,860	-110	-2.8
Company tax	71,170	66,000	-5,170	-7.3
Superannuation funds	8,050	7,680	-370	-4.6
Resource rent taxes(a)	5,400	1,710	-3,690	-68.3
Income taxation receipts	**248,390**	**236,100**	**-12,290**	**-4.9**
Sales taxes				
Goods and services tax	48,432	47,918	-515	-1.1
Wine equalisation tax	710	720	10	1.4
Luxury car tax	450	430	-20	-4.4
Total sales taxes	49,592	49,068	-525	-1.1
Excise duty				
Petrol	6,000	6,000	0	0.0
Diesel	8,700	8,600	-100	-1.1
Beer	2,070	1,950	-120	-5.8
Other excisable products(b)	9,700	9,020	-680	-7.0
of which: Other excisable beverages(c)	930	900	-30	-3.2
Total excise duty receipts	26,470	25,570	-900	-3.4
Customs duty				
Textiles, clothing and footwear	700	680	-20	-2.9
Passenger motor vehicles	920	920	0	0.0
Excise-like goods(b)	4,850	5,660	810	16.7
Other imports	1,530	1,530	0	0.0
less: Refunds and drawbacks	200	330	130	65.0
Total customs duty receipts	7,800	8,460	660	8.5
Carbon pricing mechanism	4,020	4,160	140	3.5
Other indirect taxation				
Agricultural levies	440	463	24	5.4
Other taxes	2,497	2,476	-21	-0.9
Total other indirect taxation receipts	2,937	2,939	2	0.1
Indirect taxation receipts	**90,819**	**90,197**	**-622**	**-0.7**
Taxation receipts	**339,209**	**326,297**	**-12,912**	**-3.8**
Sales of goods and services	8,818	9,043	225	2.6
Interest received	4,390	3,674	-717	-16.3
Dividends	3,268	3,186	-83	-2.5
Other non-taxation receipts	11,356	8,211	-3,145	-27.7
Non-taxation receipts	**27,832**	**24,113**	**-3,719**	**-13.4**
Total receipts	**367,041**	**350,410**	**-16,631**	**-4.5**
Memorandum:				
Capital gains tax(d)	*8,400*	*6,600*	*-1,800*	*-21.4*
Medicare levy receipts	*9,700*	*9,720*	*20*	*0.2*

(a) Comprises gross receipts from the PRRT and MRRT.
(b) Tobacco estimates are not separately reported due to taxpayer confidentiality. See Budget Statement 9, note 3, footnote (b) for more information.
(c) Other excisable beverages are those not exceeding 10 per cent by volume of alcohol (excluding beer, brandy and wine).
(d) Capital gains tax is part of other individuals, companies and superannuation funds tax.

Table B2: Reconciliation of 2013-14 general government (cash) receipts

	Estimates		Change on MYEFO	
	MYEFO	Budget		
	$m	$m	$m	%
Individuals' and other withholding taxes				
Gross income tax withholding	163,900	163,200	-700	-0.4
Gross other individuals	37,300	34,400	-2,900	-7.8
less: Refunds	26,700	26,800	100	0.4
Total individuals' and other withholding taxation	174,500	170,800	-3,700	-2.1
Fringe benefits tax	4,450	4,270	-180	-4.0
Company tax	78,680	71,650	-7,030	-8.9
Superannuation funds	9,050	8,340	-710	-7.8
Resource rent taxes(a)	6,400	3,100	-3,300	-51.6
Income taxation receipts	**273,080**	**258,160**	**-14,920**	**-5.5**
Sales taxes				
Goods and services tax	51,189	50,443	-746	-1.5
Wine equalisation tax	720	770	50	6.9
Luxury car tax	460	400	-60	-13.0
Total sales taxes	52,369	51,613	-756	-1.4
Excise duty				
Petrol	5,950	5,900	-50	-0.8
Diesel	9,300	9,100	-200	-2.2
Beer	2,180	2,020	-160	-7.3
Other excisable products(b)	9,550	9,540	-10	-0.1
of which: Other excisable beverages(c)	990	960	-30	-3.0
Total excise duty receipts	26,980	26,560	-420	-1.6
Customs duty				
Textiles, clothing and footwear	720	710	-10	-1.4
Passenger motor vehicles	960	920	-40	-4.2
Excise-like goods(b)	5,850	5,850	0	0.0
Other imports	1,670	1,600	-70	-4.2
less: Refunds and drawbacks	200	260	60	30.0
Total customs duty receipts	9,000	8,820	-180	-2.0
Carbon pricing mechanism	6,640	6,265	-375	-5.6
Other indirect taxation				
Agricultural levies	436	443	7	1.6
Other taxes	2,888	2,992	105	3.6
Total other indirect taxation receipts	3,324	3,436	111	3.4
Indirect taxation receipts	**98,313**	**96,694**	**-1,619**	**-1.6**
Taxation receipts	**371,393**	**354,854**	**-16,539**	**-4.5**
Sales of goods and services	8,758	8,639	-120	-1.4
Interest received	4,486	4,074	-412	-9.2
Dividends	2,004	2,526	522	26.1
Other non-taxation receipts	5,954	5,901	-53	-0.9
Non-taxation receipts	**21,201**	**21,140**	**-62**	**-0.3**
Total receipts	**392,595**	**375,993**	**-16,601**	**-4.2**
Memorandum:				
Capital gains tax(d)	*11,000*	*8,100*	*-2,900*	*-26.4*
Medicare levy receipts	*10,390*	*10,300*	*-90*	*-0.9*

(a) Comprises gross receipts from the PRRT and MRRT.
(b) Tobacco estimates are not separately reported due to taxpayer confidentiality. See Budget Statement 9, note 3, footnote (b) for more information.
(c) Other excisable beverages are those not exceeding 10 per cent by volume of alcohol (excluding beer, brandy and wine).
(d) Capital gains tax is part of other individuals, companies and superannuation funds tax.

Table B3: Reconciliation of 2012-13 general government (accrual) revenue

	Estimates		Change on MYEFO	
	MYEFO	Budget		
	$m	$m	$m	%
Individuals' and other withholding taxes				
Gross income tax withholding	152,590	151,660	-930	-0.6
Gross other individuals	37,840	35,940	-1,900	-5.0
less: Refunds	26,500	26,750	250	0.9
Total individuals' and other withholding taxation	163,930	160,850	-3,080	-1.9
Fringe benefits tax	4,040	3,890	-150	-3.7
Company tax	72,982	68,132	-4,850	-6.6
Superannuation funds	8,250	7,800	-450	-5.5
Resource rent taxes(a)	5,580	1,740	-3,840	-68.8
Income taxation revenue	**254,782**	**242,412**	**-12,370**	**-4.9**
Sales taxes				
Goods and services tax	50,790	50,220	-570	-1.1
Wine equalisation tax	720	730	10	1.4
Luxury car tax	450	430	-20	-4.4
Total sales taxes	51,960	51,380	-580	-1.1
Excise duty				
Petrol	6,000	6,000	0	0.0
Diesel	8,700	8,610	-90	-1.0
Beer	2,070	1,950	-120	-5.8
Other excisable products(b)	9,720	9,030	-690	-7.1
of which: Other excisable beverages(c)	930	900	-30	-3.2
Total excise duty revenue	26,490	25,590	-900	-3.4
Customs duty				
Textiles, clothing and footwear	700	680	-20	-2.9
Passenger motor vehicles	920	920	0	0.0
Excise-like goods(b)	4,850	5,660	810	16.7
Other imports	1,540	1,540	0	0.0
less: Refunds and drawbacks	180	330	150	83.3
Total customs duty revenue	7,830	8,470	640	8.2
Carbon pricing mechanism	7,690	7,540	-150	-2.0
Other indirect taxation				
Agricultural levies	440	463	24	5.4
Other taxes	2,900	2,871	-28	-1.0
Total other indirect taxation revenue	3,339	3,335	-5	-0.1
Indirect taxation revenue	**97,309**	**96,315**	**-995**	**-1.0**
Taxation revenue	**352,092**	**338,727**	**-13,365**	**-3.8**
Sales of goods and services	8,594	8,757	163	1.9
Interest	4,465	3,764	-700	-15.7
Dividends	2,479	2,429	-50	-2.0
Other non-taxation revenue	6,109	6,284	175	2.9
Non-taxation revenue	**21,647**	**21,234**	**-413**	**-1.9**
Total revenue	**373,739**	**359,961**	**-13,778**	**-3.7**
Memorandum:				
Capital gains tax(d)	*8,400*	*6,600*	*-1,800*	*-21.4*
Medicare levy revenue	*9,700*	*9,720*	*20*	*0.2*

(a) Comprises gross revenue from the PRRT and MRRT.
(b) Tobacco estimates are not separately reported due to taxpayer confidentiality. See Budget Statement 9, note 3, footnote (b) for more information.
(c) Other excisable beverages are those not exceeding 10 per cent by volume of alcohol (excluding beer, brandy and wine).
(d) Capital gains tax is part of other individuals, companies and superannuation funds tax.

Table B4: Reconciliation of 2013-14 general government (accrual) revenue

	Estimates		Change on MYEFO	
	MYEFO	Budget		
	$m	$m	$m	%
Individuals' and other withholding taxes				
Gross income tax withholding	165,250	164,660	-590	-0.4
Gross other individuals	40,080	37,490	-2,590	-6.5
less: Refunds	26,700	26,800	100	0.4
Total individuals' and other withholding taxation	178,630	175,350	-3,280	-1.8
Fringe benefits tax	4,530	4,320	-210	-4.6
Company tax	80,459	73,969	-6,490	-8.1
Superannuation funds	9,290	8,480	-810	-8.7
Resource rent taxes(a)	6,560	3,420	-3,140	-47.9
Income taxation revenue	**279,469**	**265,539**	**-13,930**	**-5.0**
Sales taxes				
Goods and services tax	53,730	53,080	-650	-1.2
Wine equalisation tax	730	780	50	6.8
Luxury car tax	460	400	-60	-13.0
Total sales taxes	54,920	54,260	-660	-1.2
Excise duty				
Petrol	5,840	5,790	-50	-0.9
Diesel	9,120	8,920	-200	-2.2
Beer	2,140	1,980	-160	-7.5
Other excisable products(b)	9,350	9,360	10	0.1
of which: Other excisable beverages(c)	990	960	-30	-3.0
Total excise duty revenue	26,450	26,050	-400	-1.5
Customs duty				
Textiles, clothing and footwear	720	710	-10	-1.4
Passenger motor vehicles	960	920	-40	-4.2
Excise-like goods(b)	5,850	5,850	0	0.0
Other imports	1,680	1,610	-70	-4.2
less: Refunds and drawbacks	180	260	80	44.4
Total customs duty revenue	9,030	8,830	-200	-2.2
Carbon pricing mechanism	8,685	8,340	-345	-4.0
Other indirect taxation				
Agricultural levies	436	443	7	1.6
Other taxes	3,033	3,202	169	5.6
Total other indirect taxation revenue	3,470	3,646	176	5.1
Indirect taxation revenue	**102,555**	**101,126**	**-1,429**	**-1.4**
Taxation revenue	**382,023**	**366,664**	**-15,359**	**-4.0**
Sales of goods and services	8,791	8,577	-213	-2.4
Interest	4,628	4,313	-316	-6.8
Dividends	1,950	2,426	476	24.4
Other non-taxation revenue	5,769	5,768	0	0.0
Non-taxation revenue	**21,138**	**21,085**	**-53**	**-0.3**
Total revenue	**403,161**	**387,749**	**-15,412**	**-3.8**
Memorandum:				
Capital gains tax(d)	*11,000*	*8,100*	*-2,900*	*-26.4*
Medicare levy revenue	*10,390*	*10,300*	*-90*	*-0.9*

(a) Comprises gross revenue from the PRRT and MRRT.
(b) Tobacco estimates are not separately reported due to taxpayer confidentiality. See Budget Statement 9, note 3, footnote (b) for more information.
(c) Other excisable beverages are those not exceeding 10 per cent by volume of alcohol (excluding beer, brandy and wine).
(d) Capital gains tax is part of other individuals, companies and superannuation funds tax.

APPENDIX C: RECEIPTS AND REVENUE HISTORY AND FORECASTS

Table C1: Australian Government (cash) receipts

	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13 (est)	2013-14 (est)	2014-15 (est)	2015-16 (proj)	2016-17 (proj)
	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m
Individuals' and other withholding taxes													
Gross income tax withholding	97,304	103,120	107,119	113,982	115,899	118,532	129,654	142,770	150,300	163,200	176,600	190,500	203,100
Gross other individuals	22,554	24,895	25,797	29,525	30,030	25,928	27,795	31,141	33,300	34,400	38,400	43,200	47,900
less: Refunds	13,734	15,244	17,145	19,601	23,569	24,390	24,711	25,537	26,750	26,800	28,350	30,250	32,100
Total individuals' and other withholding	106,123	112,770	115,770	123,906	122,361	120,070	132,739	148,373	156,850	170,800	186,650	203,450	218,900
Fringe benefits tax	3,703	4,049	3,761	3,856	3,399	3,504	3,303	3,731	3,860	4,270	4,660	5,000	5,310
Company tax	40,404	48,960	57,100	61,700	60,391	52,209	56,262	66,584	66,000	71,650	72,800	78,450	82,800
Superannuation funds	6,248	6,368	8,211	12,054	9,217	6,099	6,519	7,562	7,680	8,340	10,040	12,650	14,050
Resource rent taxes(a)	1,459	1,917	1,510	1,686	2,184	1,251	806	1,463	1,710	3,100	3,500	4,210	5,300
Income taxation receipts	157,937	174,063	186,353	203,202	197,552	183,132	199,628	227,714	236,100	258,160	277,650	303,760	326,360
Sales taxes													
Goods and services tax	35,184	37,342	39,614	42,424	41,335	43,967	46,083	45,861	47,918	50,443	53,019	56,009	58,890
Wine equalisation tax	682	656	650	665	693	733	722	708	720	770	810	860	910
Luxury car tax	298	322	364	452	393	472	483	435	430	400	360	390	420
Other sales taxes(b)	-10	-16	-6	0	-1	0	0	0	0	0	0	0	0
Total sales taxes	36,154	38,304	40,621	43,541	42,420	45,173	47,288	47,004	49,068	51,613	54,189	57,259	60,220
Excise duty													
Fuel excise	14,276	13,992	14,663	15,252	15,637	15,675	16,267	16,978	17,740	18,400	18,500	18,590	18,990
Other excise	7,612	7,822	8,086	8,474	8,736	8,764	9,490	8,567	7,830	8,160	8,350	8,760	9,170
Total excise duty	21,888	21,814	22,749	23,727	24,373	24,439	25,756	25,545	25,570	26,560	26,850	27,350	28,160
Customs duty	5,012	4,488	5,063	5,561	5,814	5,341	5,429	6,996	8,460	8,820	8,970	9,220	9,740
Carbon pricing mechanism									4,160	6,265	6,395	4,645	3,395
Other indirect taxation													
Agricultural levies	584	610	608	611	620	395	445	421	463	443	434	440	446
Other taxes	1,740	1,936	1,999	1,734	1,848	2,494	2,292	2,263	2,476	2,992	3,263	3,136	3,173
Total other indirect taxation receipts	2,324	2,546	2,607	2,345	2,468	2,888	2,738	2,684	2,939	3,436	3,697	3,575	3,619
Indirect taxation receipts	65,377	67,152	71,039	75,174	75,075	77,841	81,211	82,229	90,197	96,694	100,101	102,049	105,134
Taxation receipts	223,314	241,215	257,392	278,376	272,627	260,973	280,839	309,943	326,297	354,854	377,751	405,809	431,494

Table C1: Australian Government (cash) receipts (continued)

	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13 (est)	2013-14 (est)	2014-15 (est)	2015-16 (proj)	2016-17 (proj)
	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m
Interest received	1,400	2,325	3,731	4,769	5,166	4,025	4,943	4,267	3,674	4,074	4,055	4,575	4,837
Dividends and other	11,271	12,403	11,514	11,772	14,806	19,665	16,242	15,665	20,440	17,066	19,364	18,546	17,312
Non-taxation receipts	12,670	14,728	15,245	16,540	19,973	23,689	21,185	19,931	24,113	21,140	23,419	23,121	22,149
Total receipts	235,985	255,943	272,637	294,917	292,600	284,662	302,024	329,874	350,410	375,993	401,171	428,931	453,642

(a) Comprises gross receipts from the PRRT and MRRT. Net receipts from the MRRT are expected to be $0.2 billion in 2012-13, $0.7 billion in 2013-14, $1.0 billion in 2014-15, $1.4 billion in 2015-16 and $2.2 billion in 2016-17 which represent the net receipt impact across different revenue heads. These include offsetting reductions in company tax (through deductibility) and interactions with other taxes.

(b) 'Other sales taxes' includes wholesale sales tax.

Table C2: Major categories of (cash) receipts as a proportion of GDP[(a)]

	Income tax									Indirect tax							
	Gross ITW	Gross other ind.(b)	Refunds	Total ind. & w'holding	FBT	Super funds	Companies	RRT(c)	Total income tax	Sales taxes(d)	Excise & Customs duty	CPM(e)	Other tax	Total indirect tax	Total tax receipts	Total non-tax receipts	Total receipts
	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%
1978-79	9.7	2.0	0.9	10.9	0.0	0.0	2.6	0.0	13.5	1.5	4.4	-	0.4	6.3	19.7	2.3	22.0
1979-80	10.0	2.1	0.8	11.3	0.0	0.0	2.5	0.0	13.8	1.4	4.8	-	0.4	6.6	20.4	2.1	22.5
1980-81	10.1	2.2	0.8	11.6	0.0	0.0	3.1	0.0	14.7	1.4	5.0	-	0.3	6.7	21.4	2.2	23.6
1981-82	10.8	2.2	0.8	12.2	0.0	0.0	2.9	0.0	15.1	1.6	4.6	-	0.3	6.5	21.6	2.1	23.6
1982-83	11.1	2.2	1.0	12.3	0.0	0.0	2.6	0.0	14.8	1.8	4.7	-	0.3	6.9	21.7	2.3	24.0
1983-84	10.7	2.1	1.1	11.7	0.0	0.0	2.1	0.0	13.8	1.9	4.8	-	0.4	7.1	21.0	2.4	23.4
1984-85	11.2	2.3	0.9	12.6	0.0	0.0	2.4	0.0	15.0	2.1	5.0	-	0.5	7.5	22.5	2.5	25.0
1985-86	11.5	2.6	1.3	12.8	0.0	0.0	2.3	0.0	15.1	2.2	4.9	-	0.4	7.5	22.6	2.8	25.4
1986-87	11.8	3.0	1.3	13.6	0.2	0.0	2.4	0.0	16.1	2.2	4.6	-	0.4	7.2	23.3	2.9	26.2
1987-88	11.4	3.0	1.3	13.1	0.3	0.0	2.7	0.0	16.1	2.3	4.3	-	0.4	7.0	23.1	2.6	25.7
1988-89	11.8	2.7	1.4	13.1	0.3	0.0	2.8	0.0	16.2	2.6	3.5	-	0.4	6.5	22.7	2.0	24.7
1989-90	11.5	2.6	1.5	12.6	0.3	0.1	3.2	0.0	16.2	2.5	3.4	-	0.3	6.2	22.4	1.9	24.4
1990-91	11.2	2.7	1.6	12.3	0.3	0.3	3.4	0.1	16.3	2.3	3.3	-	0.4	6.0	22.3	1.8	24.1
1991-92	10.9	2.2	1.8	11.2	0.3	0.3	3.2	0.2	15.2	2.2	3.0	-	0.3	5.4	20.6	2.0	22.6
1992-93	10.8	1.9	1.8	10.9	0.3	0.3	2.9	0.3	14.8	2.1	2.9	-	0.2	5.2	20.0	2.0	22.0
1993-94	10.7	1.9	1.5	11.0	0.3	0.3	2.7	0.2	14.5	2.2	3.0	-	0.2	5.5	20.0	2.2	22.2
1994-95	10.9	1.9	1.6	11.2	0.6	0.4	3.1	0.2	15.4	2.3	3.1	-	0.2	5.7	21.1	1.7	22.9
1995-96	11.3	1.9	1.6	11.7	0.6	0.3	3.4	0.1	16.1	2.4	3.0	-	0.2	5.7	21.8	1.6	23.5
1996-97	11.6	2.1	1.6	12.1	0.6	0.5	3.4	0.2	16.8	2.4	3.0	-	0.2	5.5	22.4	1.6	24.0
1997-98	11.8	2.1	1.6	12.2	0.5	0.5	3.3	0.2	16.7	2.4	2.9	-	0.2	5.5	22.2	1.7	23.9
1998-99	12.1	2.1	1.7	12.5	0.5	0.6	3.3	0.1	17.1	2.4	2.8	-	0.0	5.2	22.3	2.2	24.5

Table C2: Major categories of (cash) receipts as a proportion of GDP (continued)[(a)]

	Income tax									Indirect tax							
	Gross ITW	Gross other ind.(b)	Refunds	Total ind. & w'holding	FBT	Super funds	Companies	RRT(c)	Total income tax	Sales taxes(d)	Excise & Customs duty	CPM(e)	Other tax	Total indirect tax	Total tax receipts	Total non-tax receipts	Total receipts
	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%
1999-00	12.2	2.0	1.7	12.6	0.6	0.6	3.7	0.2	17.6	2.3	2.7	-	0.2	5.2	22.9	2.2	25.1
2000-01	10.6	1.9	1.6	10.9	0.5	0.7	4.5	0.3	16.9	3.6	3.3	-	0.2	7.2	24.1	1.8	25.9
2001-02	10.5	2.2	1.4	11.2	0.5	0.6	3.6	0.2	16.1	3.6	3.2	-	0.3	7.1	23.2	1.7	24.8
2002-03	10.5	2.2	1.5	11.2	0.4	0.6	4.1	0.2	16.6	3.9	3.2	-	0.3	7.4	24.0	1.6	25.5
2003-04	10.4	2.3	1.4	11.3	0.4	0.6	4.2	0.1	16.7	4.0	3.0	-	0.3	7.3	24.0	1.4	25.3
2004-05	10.6	2.4	1.5	11.5	0.4	0.7	4.4	0.2	17.1	3.9	2.9	-	0.3	7.1	24.2	1.4	25.6
2005-06	10.4	2.5	1.5	11.3	0.4	0.6	4.9	0.2	17.5	3.8	2.6	-	0.3	6.7	24.2	1.5	25.7
2006-07	9.9	2.4	1.6	10.7	0.3	0.8	5.3	0.1	17.2	3.7	2.6	-	0.2	6.6	23.8	1.4	25.2
2007-08	9.7	2.5	1.7	10.5	0.3	1.0	5.2	0.1	17.3	3.7	2.5	-	0.2	6.4	23.7	1.4	25.1
2008-09	9.2	2.4	1.9	9.8	0.3	0.7	4.8	0.2	15.8	3.4	2.4	-	0.2	6.0	21.7	1.6	23.3
2009-10	9.2	2.0	1.9	9.3	0.3	0.5	4.0	0.1	14.2	3.5	2.3	-	0.2	6.0	20.2	1.8	22.0
2010-11	9.2	2.0	1.8	9.5	0.2	0.5	4.0	0.1	14.2	3.4	2.2	-	0.2	5.8	20.0	1.5	21.5
2011-12	9.7	2.1	1.7	10.1	0.3	0.5	4.5	0.1	15.4	3.2	2.2	-	0.2	5.6	21.0	1.4	22.4
2012-13 (e)	9.9	2.2	1.8	10.3	0.3	0.5	4.3	0.1	15.5	3.2	2.2	0.3	0.2	5.9	21.5	1.6	23.0
2013-14 (e)	10.2	2.2	1.7	10.7	0.3	0.5	4.5	0.2	16.2	3.2	2.2	0.4	0.2	6.1	22.2	1.3	23.5
2014-15 (e)	10.5	2.3	1.7	11.1	0.3	0.6	4.3	0.2	16.5	3.2	2.1	0.4	0.2	6.0	22.5	1.4	23.9
2015-16 (p)	10.8	2.4	1.7	11.5	0.3	0.7	4.4	0.2	17.2	3.2	2.1	0.3	0.2	5.8	23.0	1.3	24.3
2016-17 (p)	10.9	2.6	1.7	11.8	0.3	0.8	4.4	0.3	17.5	3.2	2.0	0.2	0.2	5.6	23.2	1.2	24.4

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

(b) Gross other individuals include amounts previously collected under the Prescribed Payments System and Reportable Payments System between 1983-84 and 1999-2000.

(c) Comprises gross receipts from the PRRT and MRRT. Net receipts from the MRRT are expected to be $0.2 billion in 2012-13, $0.7 billion in 2013-14, $1.0 billion in 2014-15, $1.4 billion in 2015-16 and $2.2 billion in 2016-17 which represent the net receipt impact across different revenue heads. These include offsetting reductions in company tax (through deductibility) and interactions with other taxes.

(d) 'Sales taxes' include wholesale sales tax which was abolished in 2000-01.

(e) Carbon pricing mechanism.

Table C3: Australian Government (accrual) revenue

	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13 (est)	2013-14 (est)	2014-15 (est)	2015-16 (proj)	2016-17 (proj)
	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m
Individuals' and other withholding taxes													
Gross income tax withholding	98,250	103,811	107,809	114,700	117,086	119,922	130,790	143,978	151,660	164,660	178,100	192,120	204,820
Gross other individuals	24,003	25,859	26,952	31,036	32,260	27,287	30,642	32,992	35,940	37,490	41,580	46,640	51,580
less: Refunds	13,734	15,239	17,147	19,601	23,569	24,390	24,660	25,537	26,750	26,800	28,350	30,250	32,100
Total individuals' and other withholding	108,519	114,431	117,614	126,135	125,777	122,820	136,772	151,433	160,850	175,350	191,330	208,510	224,300
Fringe benefits tax	3,476	4,084	3,754	3,796	3,581	3,523	3,348	3,964	3,890	4,320	4,740	5,080	5,390
Company tax	43,106	48,987	58,538	64,790	60,705	53,193	57,312	66,726	68,132	73,969	74,860	80,666	85,213
Superannuation funds	6,410	6,705	7,879	11,988	9,227	6,182	6,693	7,852	7,800	8,480	10,210	12,850	14,270
Resource rent taxes(a)	1,465	1,991	1,594	1,871	2,099	1,297	806	1,293	1,740	3,420	3,530	4,180	5,340
Income taxation revenue	162,974	176,198	189,378	208,579	201,389	187,016	204,931	231,268	242,412	265,539	284,670	311,286	334,513
Sales taxes													
Goods and services tax	35,975	39,118	41,208	44,381	42,626	46,553	48,093	48,849	50,220	53,080	55,760	58,920	61,830
Wine equalisation tax	693	657	651	661	707	748	747	716	730	780	820	870	920
Luxury car tax	302	331	365	464	384	499	489	440	430	400	360	390	420
Other sales taxes(b)	-13	-19	60	-19	-1	0	0	0	0	0	0	0	0
Total sales taxes	36,957	40,086	42,284	45,486	43,716	47,800	49,329	50,004	51,380	54,260	56,940	60,180	63,170
Excise duty													
Fuel excise	14,350	14,073	14,653	15,085	15,592	15,766	16,305	16,924	17,760	18,020	18,570	18,660	19,000
Other excise	7,631	7,854	8,082	8,441	8,727	8,781	9,497	8,557	7,830	8,030	8,380	8,790	9,170
Total excise duty	21,981	21,927	22,734	23,526	24,319	24,547	25,803	25,480	25,590	26,050	26,950	27,450	28,170
Customs duty	5,548	4,988	5,644	6,070	6,276	5,748	5,828	7,105	8,470	8,830	8,970	9,220	9,740
Carbon pricing mechanism									7,540	8,340	9,270	4,090	6,110
Other indirect taxation													
Agricultural levies	584	610	608	611	620	395	445	421	463	443	434	440	446
Other taxes	1,899	1,908	1,862	1,957	2,334	2,494	2,669	2,501	2,871	3,202	3,372	3,309	3,446
Total other indirect taxation revenue	2,483	2,518	2,470	2,567	2,954	2,889	3,115	2,922	3,335	3,646	3,806	3,748	3,892
Indirect taxation revenue	66,969	69,518	73,132	77,650	77,264	80,984	84,074	85,511	96,315	101,126	105,936	104,688	111,082
Taxation revenue	229,943	245,716	262,510	286,229	278,653	268,000	289,005	316,779	338,727	366,664	390,606	415,974	445,595

Table C3: Australian Government (accrual) revenue (continued)

	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13 (est)	2013-14 (est)	2014-15 (est)	2015-16 (proj)	2016-17 (proj)
	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m
Interest	1,621	2,437	3,921	5,558	5,124	4,430	5,169	4,617	3,764	4,313	4,477	4,980	5,448
Dividends and other	10,943	13,085	11,979	11,942	15,155	20,337	15,716	16,714	17,470	16,772	16,528	17,142	17,526
Non-taxation revenue	12,564	15,522	15,900	17,500	20,280	24,767	20,885	21,330	21,234	21,085	21,006	22,122	22,974
Total revenue	242,507	261,238	278,410	303,729	298,933	292,767	309,890	338,109	359,961	387,749	411,612	438,097	468,569

(a) Comprises gross revenue from the PRRT and MRRT. Net revenue from the MRRT are expected to be $0.2 billion in 2012-13, $0.7 billion in 2013-14, $1.0 billion in 2014-15, $1.4 billion in 2015-16 and $2.2 billion in 2016-17 which represent the net revenue impact across different revenue heads. These include offsetting reductions in company tax (through deductibility) and interactions with other taxes.

(b) 'Other sales taxes' includes wholesale sales tax.

Table C4: Major categories of (accrual) revenue as a proportion of GDP

	Income tax									Indirect tax							
	Gross ITW	Gross other ind.	Refunds	Total ind. & w'holding	FBT	Super funds	Companies	RRT (a)	Total income tax	Sales taxes(b)	Excise & Customs duty	CPM(c)	Other tax	Total indirect tax	Total tax revenue	Total non-tax revenue	Total revenue
	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%
1999-00	12.3	2.1	1.6	12.8	0.6	0.6	3.7	0.2	17.9	2.4	2.7	-	0.2	5.3	23.2	2.1	25.3
2000-01	10.7	1.9	1.6	11.0	0.5	0.7	5.0	0.3	17.6	3.7	3.3	-	0.3	7.3	24.9	1.4	26.3
2001-02	10.6	2.3	1.4	11.4	0.5	0.6	3.6	0.2	16.3	3.7	3.3	-	0.3	7.3	23.6	1.6	25.2
2002-03	10.6	2.3	1.5	11.4	0.4	0.6	4.2	0.2	16.8	4.0	3.3	-	0.3	7.6	24.4	1.5	25.8
2003-04	10.5	2.4	1.4	11.5	0.4	0.7	4.2	0.1	17.0	4.1	3.1	-	0.3	7.5	24.4	1.4	25.8
2004-05	10.7	2.6	1.5	11.8	0.4	0.7	4.7	0.2	17.7	4.0	3.0	-	0.3	7.3	25.0	1.4	26.3
2005-06	10.4	2.6	1.5	11.5	0.4	0.7	4.9	0.2	17.7	4.0	2.7	-	0.3	7.0	24.7	1.6	26.3
2006-07	10.0	2.5	1.6	10.9	0.3	0.7	5.4	0.1	17.5	3.9	2.6	-	0.2	6.8	24.2	1.5	25.7
2007-08	9.8	2.6	1.7	10.7	0.3	1.0	5.5	0.2	17.7	3.9	2.5	-	0.2	6.6	24.4	1.5	25.8
2008-09	9.3	2.6	1.9	10.0	0.3	0.7	4.8	0.2	16.1	3.5	2.4	-	0.2	6.2	22.2	1.6	23.8
2009-10	9.3	2.1	1.9	9.5	0.3	0.5	4.1	0.1	14.5	3.7	2.3	-	0.2	6.3	20.7	1.9	22.7
2010-11	9.3	2.2	1.8	9.7	0.2	0.5	4.1	0.1	14.6	3.5	2.3	-	0.2	6.0	20.6	1.5	22.1
2011-12	9.8	2.2	1.7	10.3	0.3	0.5	4.5	0.1	15.7	3.4	2.2	-	0.2	5.8	21.5	1.4	22.9
2012-13 (e)	10.0	2.4	1.8	10.6	0.3	0.5	4.5	0.1	15.9	3.4	2.2	0.5	0.2	6.3	22.3	1.4	23.7
2013-14 (e)	10.3	2.3	1.7	11.0	0.3	0.5	4.6	0.2	16.6	3.4	2.2	0.5	0.2	6.3	23.0	1.3	24.3
2014-15 (e)	10.6	2.5	1.7	11.4	0.3	0.6	4.5	0.2	17.0	3.4	2.1	0.6	0.2	6.3	23.3	1.3	24.5
2015-16 (p)	10.9	2.6	1.7	11.8	0.3	0.7	4.6	0.2	17.6	3.4	2.1	0.2	0.2	5.9	23.5	1.3	24.8
2016-17 (p)	11.0	2.8	1.7	12.0	0.3	0.8	4.6	0.3	18.0	3.4	2.0	0.3	0.2	6.0	23.9	1.2	25.2

(a) Comprises gross revenue from the PRRT and MRRT. Net revenue from the MRRT are expected to be $0.2 billion in 2012-13, $0.7 billion in 2013-14, $1.0 billion in 2014-15, $1.4 billion in 2015-16 and $2.2 billion in 2016-17 which represent the net revenue impact across different revenue heads. These include offsetting reductions in company tax (through deductibility) and interactions with other taxes.
(b) 'Sales taxes' includes wholesale sales tax prior to 2000-01.
(c) Carbon pricing mechanism.

APPENDIX D: REVENUE FORECASTING METHODOLOGY AND PERFORMANCE

Review of Treasury Macroeconomic and Revenue Forecasting

The Government's receipts forecasts, like all forecasts, are subject to a margin of error. Tax receipts in 2012-13 have been written down by around $17 billion since the 2012-13 Budget. In light of concerns regarding the performance of economic and revenue forecasts, the Secretary to the Treasury commissioned an independently overseen *Review of Treasury Macroeconomic and Revenue Forecasting* (the Review).

The Review concluded that forecasts of taxation revenue exhibited little evidence of bias over the last twenty years. While taxation revenue forecast errors revealed sustained periods of under- and over-forecasted revenue, these periods were offset over the full time period and, in part, reflected the patterns of forecast errors in the nominal economy. The Review also found that revenue forecast performance is comparable with, or better than, those of official agencies overseas over the past decade.

The Review made 11 recommendations on improving the forecasting methodology, of which four related specifically to revenue forecasting. All of these are currently being implemented.

As discussed in Box D1, a three sector company tax model has been developed and is being utilised in full for the first time this Budget. Other recommendations related to revenue forecasting include: investigating whether further information can be drawn from the Australian Taxation Office's liaison with large corporate taxpayers; examining the feasibility of constructing a micro-simulation model for forecasting personal income tax; and giving further consideration to the appropriate balance between the top-down versus bottom-up approaches to forecasting revenue.

Box D1: Revising the company taxation forecasting methodology

The *Review of Treasury Macroeconomic and Revenue Forecasting* (December 2012) found that some of the largest revenue forecast errors in recent years have been in company tax. Company tax is a relatively large and volatile source of revenue and is difficult to forecast due to both timing and compositional factors. The Review identified two directions for methodological development — more detailed analysis by different sectors and better accounting for companies operating on non-June accounting years.

The forecasting methodology has been revised in two ways. Firstly, the key sectors of mining and finance (including insurance) are now forecast separately from the rest of companies. Both of these sectors have unique characteristics, including the reliance on interest income in the financial sector, the varying impacts of the terms of trade on each sector and the high capital intensity of the mining sector. The latter is particularly important given the recent surge of mining investment in response to mining boom mark I.

These different characteristics contribute to significantly different historical growth rates for profitability in each sector, as shown in Chart A. As the mining sector's share of the economy increases, it becomes more important to fully account for its volatility when forecasting tax collections.

Chart A: Yearly growth in corporate GOS by sector

Source: ABS cat. no. 5206.0 and 5204.0.

Box D1: Revising the company taxation forecasting methodology (continued)

The second methodological revision has been to better estimate the impact of companies who report on non-June accounting years. These different payment patterns can affect both the interpretation of the corporate profit parameter as well as the estimation of the timing of company tax payments. Accurately accounting for both aspects is particularly important when understanding how an economic shock impacts on collections of company tax receipts.

Revenue forecasting methodology and performance

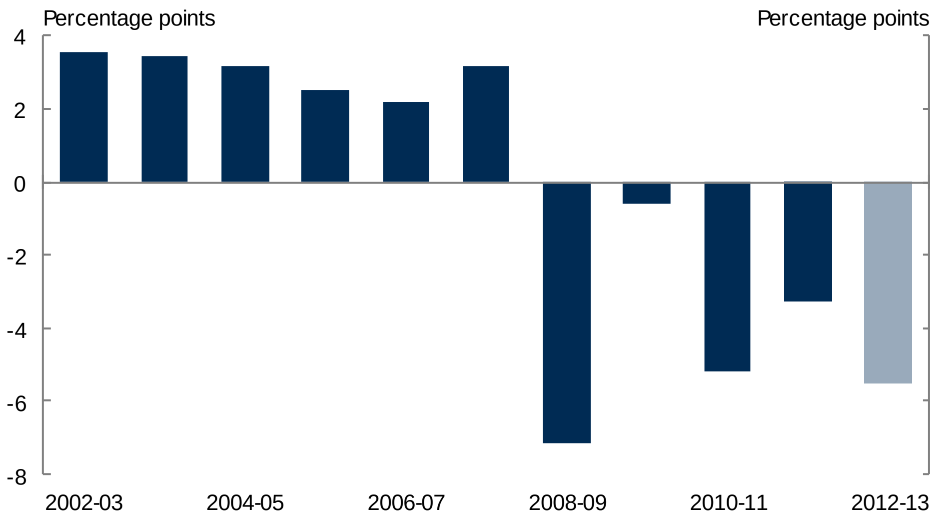
The Government's receipts estimates are generally prepared using a 'base plus growth' methodology. The last known outcome (2011-12 for the 2013-14 Budget) is used as the base to which estimated growth rates are applied, resulting in receipts estimates for the current and future years. The growth rates are determined from forecasts for a large range of economic data, many of which are described in Budget Statement 2.

The smaller and relatively simple heads of revenue, such as luxury car tax and many of the excises, are forecast by mapping the growth rate of an appropriate economic parameter directly to the tax growth rate in the relevant head of revenue. Most of the large and complex heads of revenue, such as personal and company income taxes, are forecast by mapping appropriate economic parameter growth rates to the various income, expense and deduction items on the relevant tax returns. An estimate of total tax payable is then calculated by applying the statutory rates to the estimated income base. Timing models based on past payment behaviour assist in determining whether this tax will be paid in the year the income is earned, such as for pay-as-you-go withholding tax, or in future years, such as for individuals' refunds. Other information affecting receipts forecasts includes known tax collections for the current year, new policy, and calendar date timing (for example, more pay-as-you-go withholding tax is paid on a Thursday than any other day of the week, so years with 53 Thursdays will result in more receipts than years with 52 Thursdays).

The Government's receipts forecasts, like all forecasts, are subject to a margin of error. The discernible trend between 2002-03 and 2007-08 was for receipts forecasts to under-predict outcomes (Chart D1). For example, the 2007-08 Budget forecast taxation receipts to grow by 5.0 per cent in 2007-08, compared to the outcome of 8.1 per cent, a forecast error of 3.1 percentage points. Since 2008-09, the outcome for receipts has been lower than the Budget forecast, broadly reflecting the impacts of the GFC.

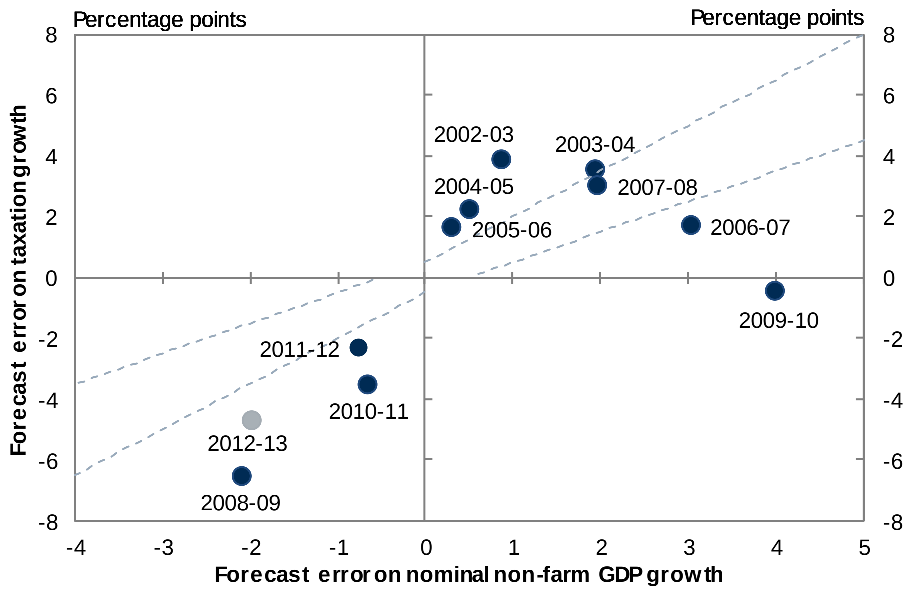
The receipts forecasting error may be split into three underlying sources: errors in economic forecasts that underpin the receipts forecasts; errors in translating the economy to receipts forecasts; and miscellaneous factors such as post-Budget policy decisions, court decisions regarding tax law interpretation, changes in compliance activities of the ATO, and revisions to historical economic data. Note that there may also be secondary errors relating to the timing of payments of tax — even if the underlying forecasts were accurate, revenue may be recorded in the fiscal year before or after it was expected.

Chart D1: Budget forecast error on taxation receipts growth



Source: Treasury.

Chart D2: Budget forecast errors on nominal non-farm GDP growth and taxation receipts growth (excluding CGT)



Source: Treasury.

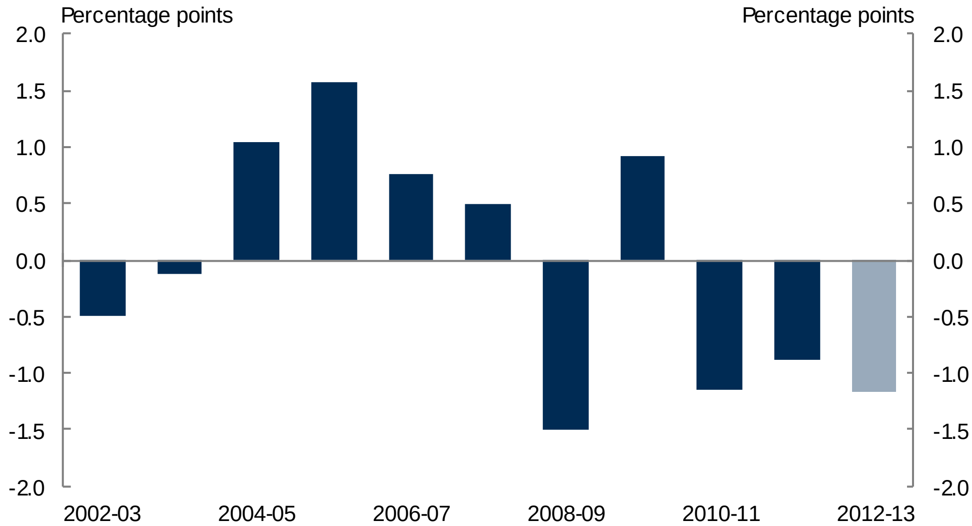
Chart D2 shows the relationship between forecast errors of the economy and tax receipts (excluding CGT) over recent years, including the current estimates for 2012-13. The dotted lines depict a receipts forecasting error of plus or minus 0.5 per cent if there is zero error on the economic forecasts.

Nominal non-farm GDP was chosen as a broad indicator of the economic forecasts. The relationship in Chart D2 is only approximate as some sources of error are independent of economic conditions and the forecasts for tax receipts rely on forecasts of a range of economic variables, not just nominal non-farm GDP.

On average, economic forecasting errors will be magnified in receipts forecasting errors, due to the progressive nature of personal income tax. The lower and upper lines are based on aggregate elasticities (of receipts with respect to nominal non-farm GDP) of 1.0 and 1.5 respectively, which are consistent with theoretical models of the tax system.

Broadly, points outside this range may represent forecasts of tax receipts growth that were either too high or too low given the economic growth forecasts. The points may also fall outside the range due to the timing of tax payments, where economic activity in one year affects tax paid in the following year. In addition, the points outside of the range in the lower left quadrant have been impacted by a larger elasticity between the economy and tax during a downturn, due to the varying impacts of the downturn on different components of GDP and the automatic stabilisers in the tax system.

Chart D3. Forecast error on capital gains tax (contribution to tax receipts growth)



Source: Treasury.

For example, in 2002-03, nominal non-farm GDP growth turned out to be around 1 percentage point higher than forecast, but growth in tax receipts (excluding CGT) were almost 4 percentage points higher than forecast. That is, the error in the revenue forecast was higher than the around 2 percentage points that the rule of thumb suggests should be theoretically associated with an economic forecasting error of that magnitude.

From 2008-09, forecasting errors in tax receipts have been significantly affected by the economic downturn related to the GFC, particularly with regards to capital gains tax (Chart D3).

The forecast for 2012-13 tax receipts (excluding CGT) in the 2012-13 Budget is expected to be an over estimate of around 4½ percentage points, compared to an over estimate of around 2 percentage points for nominal non-farm GDP growth. In 2012-13, the forecasting error is partly attributed to the shortfall in resource rent taxes. The resource rent tax base is not expected to relate as closely to nominal GDP as taxes on wages or corporate profits. Abstracting from the resource rent tax forecasting error, the forecasting error for tax receipts growth in 2012-13 (excluding CGT) is expected to be around 3 percentage points, consistent with an elasticity of tax to GDP of around 1.5.

Discussions of earlier years can be found in previous budgets.

Appendix E: Tax expenditures

This appendix contains an overview of the size of tax expenditures provided to taxpayers through the tax system.

Tax expenditures provide a benefit to a specified activity or class of taxpayer. They can be delivered as a tax exemption, tax deduction, tax offset, reduced tax rate or deferral of tax liability. The Government can use tax expenditures to allocate resources to different activities or taxpayers in much the same way that it can use direct expenditure programs.

The data reported in this appendix are consistent with the data reported in the *2012 Tax Expenditures Statement* (2012 TES) published in January 2013. The data do not include the impact of decisions in this Budget on tax expenditures.

Care needs to be taken when analysing tax expenditure data: see the 2012 TES for a detailed discussion.

Table E1 contains estimates of total tax expenditures calculated on a revenue foregone basis (see 2012 TES) for the period 2009-10 to 2016-17.

As shown in Table E1, superannuation is forecast to become the largest group of tax expenditures. The Government has announced a range of policies designed to reduce the growth of superannuation tax expenditures over the next 10 years, including reducing the concession on contributions for very high income earners in the 2012-13 Budget, and better targeting the tax exemption for earnings on superannuation assets supporting retirement income streams in this year's Budget.

Table E1: Total measured tax expenditures

Year	Housing $m	Superannuation $m	Other tax expenditures $m	Total $m	Tax expenditures as a proportion of GDP (%)
2009-10 (est)	40,000	24,089	49,842	113,931	8.8
2010-11 (est)	35,500	27,450	52,032	114,982	8.2
2011-12 (est)	31,000	30,262	50,072	111,334	7.5
2012-13 (proj)	30,000	31,846	53,174	115,020	7.6
2013-14 (proj)	29,500	34,645	55,436	119,581	7.5
2014-15 (proj)	30,000	39,615	58,881	128,496	7.7
2015-16 (proj)	30,500	44,815	61,961	137,276	7.8
2016-17 (proj)	31,000	50,655	64,792	146,447	7.9

Table E2 shows estimates of large measured tax expenditures for 2012-13.

Table E2: Large measured tax expenditures in 2012-13

Tax expenditure		Estimate $m
Large positive tax expenditures		
C6	Superannuation — concessional taxation of superannuation entity earnings	17,100
E6	Capital gains tax main residence exemption — discount component	16,500
E5	Capital gains tax main residence exemption	13,500
C5	Superannuation — concessional taxation of employer contributions	13,150
H29	GST — Food; uncooked, not prepared, not for consumption on premises of sale and some beverages	6,200
E17	Capital gains tax discount for individuals and trusts	4,180
H16	GST — Education	3,550
H19	GST — Health; medical and health services	3,000
H2	GST — Financial Supplies; input taxed treatment	2,850
A43	Exemption of Family Tax Benefit, Parts A and B	2,050
I6	CPM uncovered sectors — Agriculture	1,970
B16	Exemption from interest withholding tax on certain securities	1,730
A21	Exemption of 30 per cent private health insurance rebate, including expense equivalent	1,570
C3	Concessional taxation of non-superannuation termination benefits	1,500
D14	Philanthropy — Exemption for public benevolent institutions (excluding public and not-for-profit hospitals)	1,410
B91	Statutory effective life caps	1,335
A20	Exemption from the Medicare levy for residents with a taxable income below a threshold	1,300
A64	Philanthropy — Deduction for gifts to deductible gift recipients	1,120
D11	Philanthropy — Exemption for public and not-for-profit hospitals and public ambulance services	1,100
I1	CPM uncovered sectors — Deforestation	1,090
C8	Superannuation — deduction and concessional taxation of certain personal contributions	1,050
H21	GST — Health; residential care, community care and other care services	960
H3	GST — Financial Supplies; reduced input tax credits	940
D19	Application of statutory formula to value car benefits	930
F8	Concessional rate of excise levied on aviation gasoline and aviation turbine fuel	930
H6	GST — Water, sewerage and drainage	880
B93	Deduction for capital works expenditure	825
H5	GST — Child Care Services	820
B101	Research and development — Non-refundable tax offset	800
B4	Income tax exemption for local government bodies	720
H10	GST — Importation threshold	650
A32	Senior Australians' and Pensioners' Tax Offset	610
Large negative tax expenditures		
F25	Customs duty	-2,960
F10	Excise levied on fuel oil, heating oil and kerosene	-555

STATEMENT 6: EXPENSES AND NET CAPITAL INVESTMENT

Statement 6 presents estimates of general government sector expenses and net capital investment, allocated according to the various functions of government, on a fiscal balance basis. General government sector expenses are expected to decline as a share of Gross Domestic Product (GDP) in 2013-14, reflecting the Government's commitment to fiscal discipline.

The Government has made $18.3 billion in savings to expenses and net capital investment in this Budget. Savings have been achieved through reductions to some welfare expenses including through changes to Family Tax Benefits payments. Other savings will be delivered through the deferral of Australia's official development assistance (ODA) growth target by one year ($1.9 billion over four years), and from the realignment of indexation for the Medicare Benefits Schedule to the financial year ($664 million over four years).

Lower carbon pricing revenue as a result of updated carbon price estimates will be offset by automatic adjustments and other carbon-related changes, ensuring the overall impact is broadly budget neutral. The reduction in expenses is from reducing industry assistance in line with the lower price, deferring tax cuts scheduled for 2015-16, changes to the profile of investments in clean and renewable energy, and changes to land sector initiatives.

The Government will provide $14.3 billion in additional funding over seven years from 2012-13 to move to full implementation of DisabilityCare Australia (the national disability insurance scheme) by 1 July 2019 to provide care and support for people with significant and permanent disability. This includes the launch funding of $2.4 billion, and new funding of $1.9 billion for transition to a full scheme through to 1 July 2017, $3.8 billion in 2017-18 and $6.2 billion in 2018-19.

The Government will also provide an additional $9.8 billion over six years from 2014-15 to implement a new needs-based funding model for schools, as part of the National Plan for School Improvement. Both of these initiatives will be progressed with the support of the States and Territories.

Expense functions with the strongest real growth in 2013-14 include Transport and Communications (26.0 per cent), Housing and Amenities (24.5 per cent), and Fuel and Energy (20.4 per cent). Functions with declining funding in 2013-14 include General Public Services (-11.8 per cent) and Recreation and Culture (-0.6 per cent).

CONTENTS

STATEMENT 6: EXPENSES AND NET CAPITAL INVESTMENT

OVERVIEW

Australian Government general government sector (GGS) accrual expenses are expected to increase by 2.2 per cent in real terms in 2013-14, with the growth rate declining to 2015-16 before increasing in 2016-17. Total expenses are expected to decline as a percentage of GDP between 2012-13 and 2013-14 and over the forward estimates.

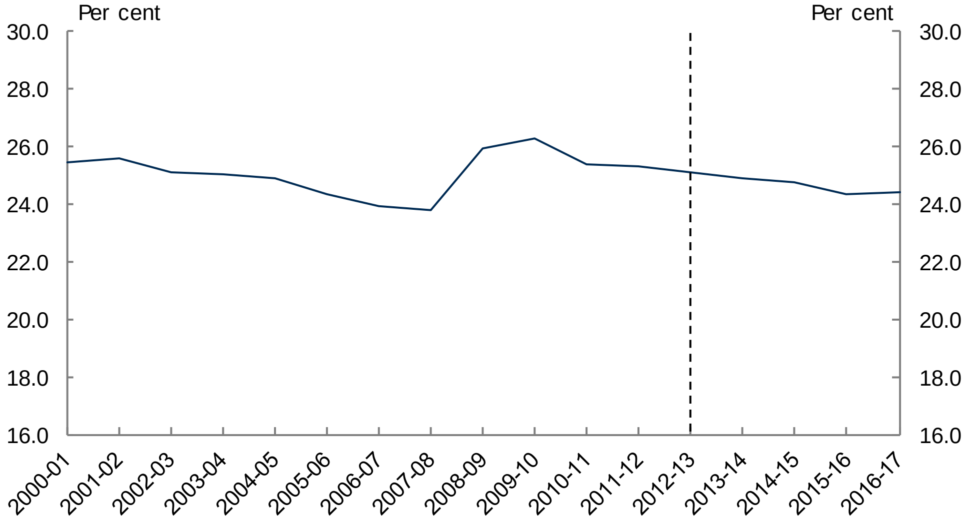
Table 1: Estimates of general government sector expenses

	MYEFO	Revised	Estimate		Projections	
	2012-13	2012-13	2013-14	2014-15	2015-16	2016-17
Total expenses ($b)	**375.0**	**381.4**	**398.3**	**415.7**	**431.0**	**454.7**
Real growth on previous year (%)(a)	-3.1	-1.3	2.2	1.9	1.2	2.9
Per cent of GDP	24.5	25.1	24.9	24.8	24.4	24.4

(a) Real growth is calculated using the Consumer Price Index.

As set out in Statement 3 of Budget Paper No. 1, the Government also reports spending on an underlying cash basis. When expressed in cash terms, Government spending is forecast to grow by an average of 1.3 per cent per annum over the five years to 2016-17.

Chart 1: Total spending as a percentage of GDP



Total expenses as a percentage of GDP are now significantly less than at their peak in 2009-10 during the global financial crisis, primarily reflecting the temporary nature of the Government's stimulus packages (see Chart 1).

Table 2 provides a reconciliation of expense estimates between the 2012-13 Budget, the *Mid-Year Economic and Fiscal Outlook 2012-13* (MYEFO) and the 2013-14 Budget showing the effect of policy decisions, and economic parameter and other variations.

Table 2: Reconciliation of expense estimates

	Estimates			Projections
	2012-13	2013-14	2014-15	2015-16
	$m	$m	$m	$m
2012-13 Budget expenses	**376,273**	**398,503**	**416,449**	**439,044**
Changes from 2012-13 Budget to 2012-13 MYEFO				
Effect of policy decisions(a)	215	530	596	223
Effect of parameter and other variations	-1,439	-1,179	-3,340	-3,456
Total variations	**-1,224**	**-649**	**-2,744**	**-3,233**
2012-13 MYEFO expenses	**375,049**	**397,854**	**413,704**	**435,811**
Changes from 2012-13 MYEFO to 2013-14 Budget				
Effect of policy decisions(a)	1,978	382	-1,014	-3,054
Effect of economic parameter variations				
Total economic parameter variations	-188	-710	770	-587
Unemployment benefits	*419*	*4*	*1,613*	*423*
Prices and wages	*-77*	*14*	*30*	*-415*
Interest and exchange rates	*20*	*22*	*6*	*5*
GST payments to the States	*-550*	*-750*	*-880*	*-600*
Public debt interest	192	757	1,475	2,013
Program specific parameter variations	2,672	2,172	2,135	-368
Slippage in 2012-13 Budget decisions	0	0	0	0
Other variations	1,736	-2,153	-1,408	-2,800
Total variations	**6,391**	**447**	**1,958**	**-4,796**
2013-14 Budget expenses	**381,439**	**398,301**	**415,663**	**431,015**

(a) Excludes secondary impacts on public debt interest of policy decisions and offsets from the Contingency Reserve for decisions taken.

Economic parameter variations are expected to reduce expenses in 2012-13 and across the forward estimates compared to the 2012-13 MYEFO. This trend is driven largely by a fall in goods and services tax (GST) payments to the States and Territories, consistent with a reduction in GST revenue collection. An upwards revision to the estimated number of unemployment benefit recipients is expected to increase expenses in 2014-15 compared to MYEFO. Growth in expenses is then expected to slow in 2015-16 in accordance with the use of longer term projections for the number of unemployment benefit recipients in that year. Policy decisions also reduce expenses in 2014-15 and 2015-16.

Estimated expenses by function

Table 3 sets out the estimates of Australian Government GGS expenses by function for the period 2012-13 to 2016-17.

Table 3: Estimates of expenses by function

	Estimates			Projections	
	2012-13	2013-14	2014-15	2015-16	2016-17
	$m	$m	$m	$m	$m
General public services	25,555	23,023	23,237	23,756	25,537
Defence	21,122	22,045	23,345	25,094	25,834
Public order and safety	4,028	4,272	4,132	4,087	4,048
Education	28,411	29,742	30,386	31,790	34,007
Health	62,249	64,636	68,081	71,597	75,493
Social security and welfare	132,388	138,145	144,021	149,911	158,479
Housing and community amenities	6,898	8,775	8,930	6,508	7,594
Recreation and culture	3,641	3,696	3,551	3,433	3,468
Fuel and energy	6,168	7,586	7,557	7,701	7,574
Agriculture, forestry and fishing	2,605	2,654	2,709	3,047	2,702
Mining, manufacturing and construction	2,267	2,431	2,734	2,592	2,328
Transport and communication	5,002	6,453	6,555	6,005	5,401
Other economic affairs	10,365	11,283	10,485	10,354	9,899
Other purposes	70,741	73,560	79,940	85,139	92,385
Total expenses	**381,439**	**398,301**	**415,663**	**431,015**	**454,747**

Major expense trends from 2013-14 over the forward years include movements in the following functions:

- **general public services —** the decrease in expenses between 2012-13 and 2013-14 reflects revised actuarial estimates of the Government's superannuation liability. Expenses are estimated to increase from 2013-14 over the forward estimates due to the Government's commitment to increase the level of ODA to 0.5 per cent of Gross National Income which has been deferred by one year to 2017-18;
- **defence —** the increase in expenses from 2013-14 over the forward estimates reflects growth in Defence funding, including to support the priorities outlined in the 2013 Defence White Paper;
- **education —** the increase in expenses is largely due to the Government's *Better Schools – A National Plan for School Improvement* reforms;
- **health —** expenses are expected to increase to reflect indexation of the Commonwealth's contribution to the provision of hospital services as well as higher demand for increasingly expensive health services, and a growing and ageing population;
- **social security and welfare —** the increase in expenses is largely due to an ageing population with more people accessing age, disability and carer payments and

residential and home care together with implementation of DisabilityCare Australia to support people with a significant and permanent disability;

- **housing and community amenities —** expenses are expected to initially increase due to the continued implementation of the *Clean Energy Future* package and then fall due to the impact of the revised carbon price projections on the Jobs and Competitiveness program and Energy Security Fund;
- **transport and communication —** the increase in expenses between 2012-13 and 2013-14 reflects increased funding for the road and rail sectors. Expenses are expected to decrease from 2014-15 due to the completion of a number of major projects; and
- **other purposes —** the increase in expenses primarily reflects growing general revenue assistance payments (primarily GST) to be made to the States and Territories and the conservative bias allowance component of the Contingency Reserve.

Government expenses are strongly influenced by underlying trends in spending in the social security and welfare, health and education functions (see Boxes 1 and 2). Together, these functions account for 58.4 per cent of all government expenses in 2013-14. Health spending is forecast to grow at a faster rate in real terms than education and social security and welfare spending over the forward estimates period and is expected to increase its share of total expenses from around 14.0 per cent in 2000-01 to 16.6 per cent in 2016-17. Further details of spending trends against all functions are set out under individual function headings.

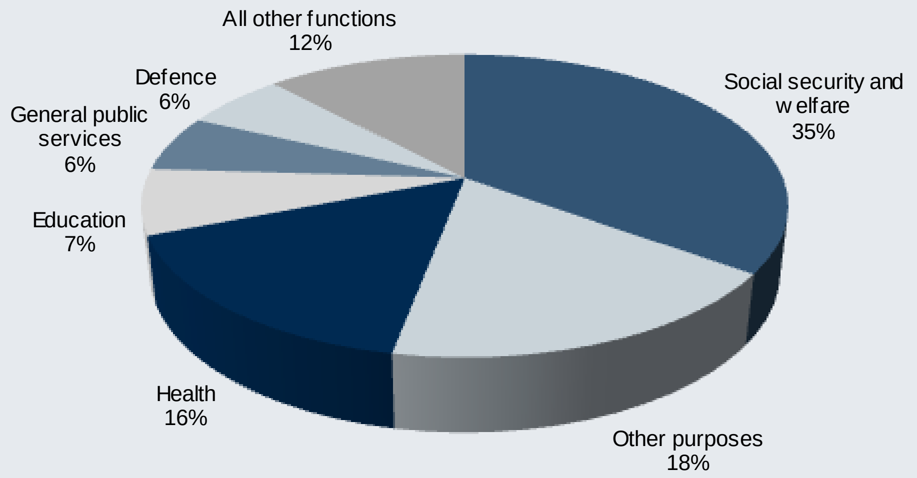
Box 1: Where does government spending go in 2013-14?

Government spending provides a wide range of services to the community. The most significant component of government spending relates to social security and welfare, with around one third of total expenses providing support to the aged, families with children, people with disabilities, veterans, carers and unemployed people.

Another one sixth of government expenses occur in health, including Medicare Benefits Schedule (MBS) and Pharmaceutical Benefits Scheme (PBS) payments. A similar amount is also transferred to the States and Territories in general revenue assistance under the other purposes function.

The Government also provides significant investment under the education function, supporting government and non-government schools, as well as higher education and vocational education and training. The remainder is spent on defence and a range of other public services.

Chart 2: Expenses by function in 2013-14



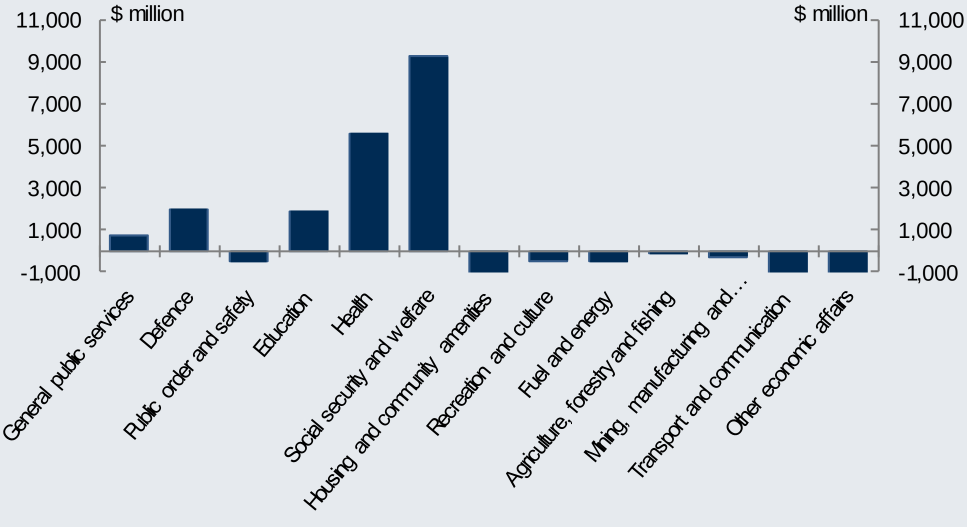
The estimates presented in the chart above are explained in greater detail under each individual function in the following pages.

Box 2: Trends in future spending

Social security and welfare expenses are projected to grow strongly over the forward estimates. Key factors driving this include age, disability and carer payments and an increase in expenses associated with home care, home support and residential aged care, with demographic factors resulting in an increase in the number of people receiving these payments. Another driver of growth is the full implementation of *DisabilityCare Australia*, including a Government commitment of $14.3 billion in additional funding over seven years from 2012-13. This includes the launch funding of $2.4 billion through to 1 July 2017, and new funding of $1.9 billion for transition to a full scheme through to 1 July 2017, $3.8 billion in 2017-18 and $6.2 billion in 2018-19. A number of major health programs will continue to see strong expenditure growth, including the MBS, and payments to the States and Territories under the National Healthcare Agreement and the National Health Reform Agreement. Spending on health is influenced by population growth and to some extent by the ageing of the population together with developments in health technology and the resulting use of new products and services.

Spending growth in the education function is driven largely by increases in assistance to government and non-government schools as part of the Government's *Better Schools — A National Plan for School Improvement* reforms (discussed in greater detail in Box 5).

Chart 3: Total real growth by function — 2013-14 to 2016-17[(a)]



(a) The other purposes function is not included in this chart as it contains expenses for general revenue assistance to the State and Territory governments (primarily GST), public debt interest, and the conservative bias allowance.

Major savings

As part of the commitment to sustainable funding, the Government has identified savings in this Budget of $18.3 billion over five years from 2012-13 in expenses and net capital investment. These savings reduce expenses and net capital investment across a range of functions.

The Government will achieve savings in the **social security and welfare** function, mainly through a range of changes to Family Tax Benefit (FTB) payments and including not proceeding with the 2012-13 Budget measure *Spreading the Benefits of the Boom.* This also includes better targeting of the type of financial support available to parents when they have a baby or adopt a child and extension of the pause on the indexation of the upper income tests for family payments and the FTB supplements for a further three years. Changes to family payments are expected to decrease expenses and net capital investment by $877 million in 2013-14 ($5.4 billion over the five years from 2012-13 to 2016-17).

In the **education** function, funding from a number of National Partnerships (including Literacy and Numeracy, Empowering Local Schools, Rewards for Great Teachers, Reward for School Improvement, and Low Socio-Economic Status School Communities) will be redirected towards the *Better Schools — A National Plan for School Improvement* package, as the new reforms will meet the objectives of these National Partnerships. These measures are expected to save $139 million in 2013-14 and $3.0 billion over the six calendar years of the proposed funding agreement from 2014 to 2019. Further savings will be achieved in education by offering Student Start-up Scholarships as income contingent loans, rather than as grants, to all new full-time higher education students in receipt of Youth Allowance, Austudy or ABSTUDY from 1 January 2014. This is expected to save $33 million in 2013-14 (or $1.2 billion over the four years to 2016-17). The Government will also apply an efficiency dividend of 2.0 per cent in 2014 and 1.25 per cent in 2015 to most grants provided under the *Higher Education Support Act 2003,* saving $85 million in 2013-14 ($903 million over the four years to 2016-17), although funding is still projected to grow by $1.2 billion over this period. The Government will also remove the discounts applying to up-front payments and voluntary re-payments under the Higher Education Loan Program from 1 January 2014, reducing expenses by $30 million in 2013-14 ($235 million over the four years to 2016-17).

In the **general public services** function, the Government will continue to grow Australia's aid budget to 0.5 per cent of Gross National Income but defer the target date by one year, from 2016-17 to 2017-18. This will achieve savings of $1.9 billion over the forward estimates while still growing aid spending by 42.4 per cent in nominal terms over this period.

In the **health** function, realigning indexation of the Medicare Benefits Schedule (MBS) to the financial year will achieve savings of $160 million in 2013-14 ($664 million over four years to 2016-17) and a further $225.1 million in savings over four years will be achieved through removing double billing under the MBS and changes to the extended Medicare safety net.

The Government will also achieve savings of up to around $600 million over four years to 2016-17 from public service efficiency reforms that focus on a range of efficiencies, including property management, paid parking, procurement and management structures of the Australian Public Service.

Further details of Government policy decisions are provided in Budget Paper No. 2, *Budget Measures 2013-14*.

Program expenses

Table 3.1 reports the top 20 expense programs in the 2013-14 financial year. These programs represent approximately two thirds of total expenses in that year. More than half of the top 20 expense programs provide financial assistance or services to seniors, families, people with a disability, students, carers and the unemployed.

Table 3.1: Top 20 programs by expenses in 2013-14[a]

		Estimates			Projections	
		2012-13	2013-14	2014-15	2015-16	2016-17
Program	**Function**	$m	$m	$m	$m	$m
Revenue assistance to the States and Territories	Other purposes	48,935	51,234	53,804	56,778	59,647
Income support for seniors	SSW	36,546	39,442	42,065	45,038	48,437
Family tax benefit	SSW	20,304	20,289	20,561	20,768	21,005
Medicare services	Health	18,549	19,092	20,843	22,161	23,662
Disability support pension	SSW	14,852	15,549	16,280	17,005	17,860
Assistance to the States for healthcare services	Health	13,252	13,941	15,432	17,060	18,849
Pharmaceuticals and pharmaceutical services	Health	9,657	10,071	10,570	11,011	11,484
Job seeker income support	SSW	8,559	9,550	10,559	9,830	9,859
Non government schools – national support	Education	8,095	8,891	9,252	9,945	10,693
Residential and flexible care	SSW	8,311	8,811	9,325	9,979	10,573
Higher education support	Education	6,995	7,185	7,465	7,870	8,005
Public sector superannuation(b)	Other purposes; General public services	7,962	7,059	7,189	7,332	7,459
Income support for carers	SSW	6,206	6,878	7,630	8,352	9,213
Fuel tax credits scheme	Fuel and energy	5,519	5,871	5,906	6,270	6,360
Management of capability sustainment	Defence	5,095	5,640	6,128	6,461	6,712
Private health insurance	Health	5,564	5,399	5,578	5,748	5,912
Army capabilities	Defence	5,061	5,377	5,746	6,122	6,159
Parents' income support	SSW	5,572	5,275	5,320	5,498	5,628
Child care fee assistance	SSW	4,661	5,048	5,373	5,673	5,982
Navy Capabilities	Defence	4,246	4,396	4,565	4,687	4,719
Sub-total		**243,941**	**254,998**	**269,591**	**283,588**	**298,218**
Other programs		137,498	143,303	146,072	147,427	156,529
Total expenses		**381,439**	**398,301**	**415,663**	**431,015**	**454,747**

(a) Programs are at the gross expense level and no related entity eliminations have been applied.
(b) This program is a combination of public sector superannuation nominal interest and benefits programs.

General government sector expenses

General public services

The general public services function includes expenses to support the organisation and operation of government such as those related to the Parliament, the Governor-General and conduct of elections; the collection of taxes and management of public funds and debt; assistance to developing countries to reduce poverty and achieve sustainable development, particularly countries in the Pacific region; contributions to international organisations; and the operations of the foreign service. It also includes expenses related to research in areas not otherwise connected with a specific function, and those associated with overall economic and statistical services as well as government superannuation benefits (excluding nominal interest expenses on unfunded liabilities which are included under the nominal superannuation interest sub-function in the other purposes function).

Table 4: Summary of expenses — general public services

	Estimates			Projections	
	2012-13	2013-14	2014-15	2015-16	2016-17
	$m	$m	$m	$m	$m
Legislative and executive affairs	1,021	1,335	1,222	1,033	1,264
Financial and fiscal affairs	7,749	8,112	8,194	8,335	8,741
Foreign affairs and economic aid	5,896	6,752	7,010	7,650	8,860
General research	2,639	2,663	2,648	2,511	2,414
General services	683	695	704	728	748
Government superannuation benefits	7,567	3,466	3,460	3,499	3,510
Total general public services	**25,555**	**23,023**	**23,237**	**23,756**	**25,537**

Total general public services expenses are estimated to decrease by 11.8 per cent in real terms from 2012-13 to 2013-14, and increase by 3.2 per cent in real terms over the period 2013-14 to 2016-17.

The uneven profile of expenses under the **legislative and executive affairs** sub-function partly reflects costs that will be incurred by the Australian Electoral Commission to support the scheduled federal elections in 2013-14 and 2016-17.

Expenses in the **financial and fiscal affairs** sub-function are expected to increase over the forward estimates, primarily due to an increase in bad and doubtful debts expenses in line with the normal growth in taxation revenue over the forward estimates.

The fall in expenses from 2012-13 to 2013-14 in the **government superannuation benefits** sub-function reflects the use of different discount rates. The superannuation expenses for 2012-13 apply a discount rate based on long-term government bonds at the commencement of the financial year (3.1 per cent) in accordance with accounting standards. Forward years are estimated based on the discount rate applied by the superannuation scheme actuaries in preparing long term cost reports (6 per cent).

Total expenses under the **foreign affairs and economic aid** sub-function are expected to grow by 12.1 per cent in real terms from 2012-13 to 2013-14 and are forecast to grow by 22.1 per cent in real terms across the forward years from 2013-14. This increase has been driven by the Government's commitment to increase the level of ODA to 0.5 per cent of Gross National Income (GNI).

The Government has deferred the target year to reach this GNI target by one year, from 2016-17 to 2017-18. Under this new profile, ODA spending is forecast to grow by 7.7 per cent in real terms from 2012-13 to 2013-14 and 32.4 per cent from 2013-14 to 2016-17. Budget Paper No. 2, *Budget Measures 2013-14,* contains further details on the Government's revision to the growth profile for ODA.

Table 4.1: Trends in the major components of foreign affairs and economic aid sub-function expenses

	Estimates			Projections	
	2012-13	2013-14	2014-15	2015-16	2016-17
	$m	$m	$m	$m	$m
Official development assistance(a)(b)	3,863	4,616	4,912	5,538	6,694
Africa, South and Central Asia, Middle East and other	1,002	1,158	1,273	1,560	1,790
East Asia	973	1,139	1289	1397	1543
PNG and Pacific	924	944	1053	1233	1352
Emergency, humanitarian and refugee programs	294	384	446	595	630
UN, Commonwealth and other international organisations	365	396	396	494	544
Multilateral replenishments	126	373	212	0	553
NGO, Volunteer and community programs	179	222	242	259	282
Other(c)	333	374	354	360	365
International deployments	322	298	301	289	332
Passport services	241	250	258	269	267
Payments to international organisations	236	258	258	260	263
International agricultural research and development	118	119	114	120	124
Consular services	73	76	82	82	83
Finance and insurance services for Australian exporters and investors	40	37	35	33	27
Other	670	724	697	699	705
Total	**5,896**	**6,752**	**7,010**	**7,650**	**8,860**

(a) The difference between these figures and the Government's ODA target is partly due to the way replenishments are recognised in accrual terms when initial commitments are made. However, ODA targets are measured in cash terms and reflecting the timing of actual cash payments (which, in the case of multilateral replenishments, can be spread over several years).
(b) Some ODA delivered by other government departments is also classified to other programs or functions.
(c) Other includes AusAID's departmental expenses and the provision available for future aid spending in the ODA Contingency Reserve (CR) in the Budget and forward estimates. The ODA CR represents the difference between the amount of ODA already committed by Australia and the Government's target levels of ODA.

The **general research** sub-function incorporates expenses incurred by the Commonwealth Scientific and Industrial Research Organisation, the Australian

Nuclear Science and Technology Organisation, the Australian Institute of Marine Science and the Australian Research Council.

Total expenses under this sub-function are forecast to decrease by 1.2 per cent in real terms from 2012-13 to 2013-14. The decrease over the forward estimates is mainly due to the completion of a number of one-off projects funded under the Education Investment Fund in the Science and Research Capacity Program.

The table below sets out the major components of general research sub-function expenses.

Table 4.2: Trends in the major components of general research sub-function expenses

	Estimates			Projections	
	2012-13	2013-14	2014-15	2015-16	2016-17
	$m	$m	$m	$m	$m
National research flagships	575	646	674	697	695
Discovery - research and research training	542	553	549	531	486
Core research and services	500	485	498	509	503
Linkage - cross sector research partnerships	338	334	332	305	304
Science and technology solutions	265	291	289	297	275
Science and research capacity	283	225	179	41	8
Other	136	129	127	131	143
Total	**2,639**	**2,663**	**2,648**	**2,511**	**2,414**

Defence

The defence function includes expenses incurred by the Department of Defence (Defence), the Defence Materiel Organisation (DMO) and related agencies. Defence expenses support Australian military operations overseas and the delivery of navy, army, air and intelligence capabilities and strategic policy advice in the defence of Australia and its national interests. The DMO contributes to the preparedness of the Australian defence organisation through the acquisition and through-life support of military equipment and supplies.

This function records the majority of expenses incurred by the defence portfolio but does not include the expenses incurred by the Department of Veterans' Affairs, superannuation payments to retired military personnel and housing assistance provided through Defence Housing Australia. These expenses are reported in the social security and welfare, other purposes, and housing and community amenities functions, respectively.

Table 5: Summary of expenses — defence

	Estimates			Projections	
	2012-13	2013-14	2014-15	2015-16	2016-17
	$m	$m	$m	$m	$m
Defence	21,122	22,045	23,345	25,094	25,834
Total defence	**21,122**	**22,045**	**23,345**	**25,094**	**25,834**

Total expenses for the defence function are estimated to increase by 2.2 per cent from 2012-13 to 2013-14, and increase by 9.0 per cent in real terms over the period 2013-14 to 2016-17, reflecting growth in defence funding to support the priorities outlined in the 2013 Defence White Paper.

The funding growth does not include the full cost of operations beyond 2013-14 as such funding is considered on a year-by-year basis and is subject to future Government decisions. In 2013-14, funding of $886.2 million is being provided to support Defence operations in the Middle East and the Solomon Islands.

Funding for Timor-Leste post-transition remediation activities, Coastal Surveillance activities and security capabilities to support the Group of 20 Leaders' Summit will be met from within Defence's existing resources. See Budget Paper No. 2, *Budget Measures 2013-14* for further details.

The acquisition of defence capital items is reported in the net capital investment section of this Statement and in Box 3 below.

Box 3: Defence funding

Total Defence expenditure is estimated to increase by $5.0 billion (12.3 per cent in real terms) from 2013-14 over the forward estimates. This includes both expenses and net capital investment. Expenses for the defence function are those incurred in undertaking day-to-day activities. Net capital investment represents expenditure to acquire capital items in the form of equipment, buildings and land, less depreciation expenses.

Table 5.1: Trends in the major components of defence function expenses and net capital investment

	Estimates			Projections	
	2012-13	2013-14	2014-15	2015-16	2016-17
	$m	$m	$m	$m	$m
Expenses	21,122	22,045	23,345	25,094	25,834
Net capital investment	1,439	1,890	2,620	2,336	3,054
Total defence spending	**22,561**	**23,935**	**25,965**	**27,430**	**28,888**

Capital funding in the defence function is applied towards the acquisition of large and complex platforms and military equipment, and the construction of support facilities linked to capability. Fluctuations in capital spending can be due to slippage in expenditure from one year to the next year, foreign exchange rate fluctuations and additional funding decisions of Government.

Further details of capital spending are provided in the net capital investment section of this Statement and in the overview of the 2013 Defence White Paper (see Box 4).

Box 4: The 2013 Defence White Paper and funding

On 3 May 2013, the Government released the 2013 Defence White Paper. This document complements the National Security Strategy released on 23 January 2013, and the Australia in the Asian Century White Paper released on 28 October 2012.

These three documents are a statement of the priority the Government places on Australia's security and prosperity, and on maintaining a strong Australian Defence Force (ADF) to meet Australia's national security challenges.

The Defence White Paper addresses the range of significant international and domestic developments since 2009, which influence Australia's national security and defence settings, including their impact on force posture, future force structure and the defence budget.

The 2013 Defence White Paper reflects the Government's strong commitment to maintaining a highly skilled, capable and adaptable ADF as it transitions from over a decade of demanding and intensive operations. The White Paper also reaffirms the core capability commitments that are critical to Australia's long-term defence and security.

The White Paper highlights a funding model for Defence based on the four-year budget and forward estimates cycle, with subsequent six-year general guidance to assist Defence capability planning.

The 2013-14 Budget includes funding for major capital acquisitions such as 12 new build EA-18G Growler aircraft.

Other major planned acquisitions include:

- a bring forward of the replacement of Australia's Armidale Class Patrol Boats and the supply ships HMAS Success and HMAS Sirius;
- around 2,700 deployable protected and armoured vehicles with improved firepower, protection and mobility; and
- the introduction of the fifth-generation F-35A Joint Strike Fighter aircraft.

As well, the Government is committed to increasing Defence funding towards a target of 2 per cent of Gross Domestic Product, as and when fiscal circumstances allow. This is a long-term objective that will be implemented in an economically responsible manner.

Public order and safety

The public order and safety function includes expenses to support the administration of the federal legal system and the provision of legal services, including legal aid, to the community. Public order and safety expenses also include law enforcement and intelligence activities, and the protection of Australian Government property.

Table 6: Summary of expenses — public order and safety

	Estimates			Projections	
	2012-13	2013-14	2014-15	2015-16	2016-17
	$m	$m	$m	$m	$m
Courts and legal services	899	1,007	981	980	896
Other public order and safety	3,129	3,264	3,151	3,108	3,152
Total public order and safety	**4,028**	**4,272**	**4,132**	**4,087**	**4,048**

Total expenses for the public order and safety function are estimated to increase by 3.8 per cent in real terms from 2012-13 to 2013-14, and decrease by 11.9 per cent in real terms over the period 2013-14 to 2016-17. The increase from 2012-13 to 2013-14 is partly due to additional funding provided in 2013-14 for the *Addressing Gang Violence and Organised Crime* package, which affects both sub-functions. The increase also reflects the additional funding provided within the **courts and legal services** sub-function for the Royal Commission into Institutional Responses to Child Sexual Abuse as 2013-14 will be the first full year of the Commission's operation; and funding provided within the **other public order and safety** sub-function to the Australian Customs and Border Protection Service to strengthen its maritime capability. The decline in real terms from 2013-14 to 2016-17 is due to the completion of these measures prior to 2016-17.

Education

The education function includes expenses to support the delivery of education services through higher education institutions; vocational education and training providers (including technical and further education institutions); and government (State and Territory) and non-government primary and secondary schools.

Table 7: Summary of expenses — education

	Estimates			Projections	
	2012-13	2013-14	2014-15	2015-16	2016-17
	$m	$m	$m	$m	$m
Higher education	8,724	8,997	9,321	9,829	10,073
Vocational and other education	1,904	1,954	2,128	2,124	2,305
Schools	12,419	13,778	14,441	15,748	17,231
Non-government schools	8,094	8,916	9,277	9,970	10,718
Government schools	4,326	4,861	5,164	5,778	6,513
Student assistance	3,532	3,599	3,498	3,458	3,573
General administration	268	268	257	250	266
School education - specific funding	1,563	1,147	740	381	560
Total education	**28,411**	**29,742**	**30,386**	**31,790**	**34,007**

Total education expenses are expected to increase by 2.5 per cent in real terms between 2012-13 and 2013-14 and by 6.4 per cent in real terms from 2013-14 to 2016-17.

Expenses under the **higher education** sub-function are expected to increase by 1.0 per cent in real terms from 2012-13 to 2013-14, and by 4.1 per cent in real terms from 2013-14 to 2016-17. The large increases in enrolment growth from the transition to a demand driven funding system are moderating with lower estimated growth than in 2012-13. The 2013-14 Budget decision to apply an efficiency dividend for two years to most grants under the *Higher Education Support Act 2003*, and the 2012-13 MYEFO measure to cease Facilitation Funding from 1 January 2014 are also impacting the rate of growth from historical highs.

Expenses under the Higher Education Support Program are still expected to increase from $7.0 billion in 2012-13 to $7.9 billion in 2016-17. Investment in higher education research programs is also still expected to increase from $1.6 billion in 2012-13 to $2.0 billion in 2016-17.

Growth in the **vocational and other education** sub-function reflects the funding profile of the Skills Reform National Partnership announced as part of the Building Australia's Future Workforce package in the 2011-12 Budget. Total expenses under the sub-function are estimated to increase by 0.5 per cent in real terms between 2012-13 and 2013-14 and by 9.7 per cent in real terms from 2013-14 to 2016-17.

The major components of the vocational and other education sub-function are set out in Table 7.1.

Table 7.1: Trends in the major components of vocational and other education sub-function expenses

	Estimates			Projections	
	2012-13	2013-14	2014-15	2015-16	2016-17
	$m	$m	$m	$m	$m
Assistance to the States for skills and workforce development	1,388	1,409	1,436	1,463	1,490
National Partnership Payments - vocational and other education	278	280	414	377	516
Adult Migrant English Program	238	265	278	284	299
Total	**1,904**	**1,954**	**2,128**	**2,124**	**2,305**

Expenses in the **schools (non-government and government)** sub-functions reflect the Government's *Better Schools — A National Plan for School Improvement* reforms (discussed in greater detail in Box 5). The Government has made an offer to States, Territories and non-government education authorities to implement a new needs-based funding model for schools. Under the proposed offer, the Government will provide an additional $9.8 billion over six years from 2014-15.

Expenses in the **schools — non-government schools** sub-function are expected to increase by 7.9 per cent in real terms between 2012-13 and 2013-14 and by 11.8 per cent in real terms from 2013-14 to 2016-17, reflecting the Government's funding offer outlined above. A break-up of National Partnership funding can be found in Budget Paper No. 3, *Australia's Federal Relations 2013-14*.

Expenses under the **schools — government schools** sub-function include general assistance and National Partnerships which, by their nature, are time limited. Under the proposed new school funding arrangements, the Rewards for Great Teachers and Smarter Schools — Low Socio-economic Status School Communities National Partnerships will cease from 31 December 2013. In addition, funding provisioned for National Partnerships associated with the Reward for School Improvement program and the next phase of the Empowering Local Schools program will not proceed. Expenses under this sub-function are expected to increase by 10.0 per cent in real terms between 2012-13 and 2013-14 and by 24.6 per cent in real terms from 2013-14 to 2016-17. This reflects the Government's funding offer, with lower initial growth primarily driven by the six year transition to the new funding model.

Expenses under the **student assistance** sub-function are expected to decrease by 0.2 per cent in real terms from 2012-13 to 2013-14, and by 7.7 per cent in real terms from 2013-14 to 2016-17. This primarily reflects recent changes in tertiary student assistance.

The Government's decision to replace Student Start-up Scholarships (SSS) with income contingent loans is expected to progressively reduce expenses under tertiary student assistance from 2013-14 to 2015-16, at which point most of the existing students who are covered by transitional arrangements are expected to have exited the system.

While the conversion of the SSS from a payment to an income contingent loan reduces expenses, the amount of funding available to students is unchanged.

Growth in expenses is expected to resume from 2016-17 as the ongoing growth in projected higher education enrolments again becomes the key driver of expense growth. Expenses under the Higher Education Loan Program (HELP) reflect the estimated cost to the Government of providing concessional loans. The reduction in expenses between 2013-14 and 2014-15 is because 2013 is the last year that the HECS-HELP discount will be paid. The growth thereafter reflects ongoing enrolment growth under the demand driven system.

The major components of the student assistance sub-function are set out in Table 7.2.

Table 7.2: Trends in the major components of student assistance sub-function expenses

	Estimates			Projections	
	2012-13	2013-14	2014-15	2015-16	2016-17
	$m	$m	$m	$m	$m
Tertiary student assistance	3,029	3,082	2,977	2,914	3,002
School student assistance	288	293	302	305	310
Higher Education Loan Program	199	208	203	223	244
Other	16	16	16	16	17
Total	**3,532**	**3,599**	**3,498**	**3,458**	**3,573**

The major components of the **school education — specific funding** sub-function are the National Partnership Agreements on the National Action Plan for Literacy and Numeracy, Digital Education Revolution, Improving Teacher Quality, Trade Training Centres, Low Socio-economic Status School Communities, Rewards for Great Teachers and Youth Attainment and Transitions, and a number of elements of the *Stronger Futures in the Northern Territory* initiative. This includes both government and non-government school expenditure. The variation in expenses between years can largely be attributed to the terms of these National Partnerships. In particular, the estimated reduction in expenses from 2012-13 to 2014-15 is due to the winding up of a number of National Partnerships and the transition to the new schools funding model. If the reforms are agreed by all states and territories, the only National Partnerships that will continue are Trade Training Centres, and a number of elements of the *Stronger Futures in the Northern Territory* initiative.

Box 5: National Plan for School Improvement

The Review of Funding for Schooling Final Report, released on 20 February 2012, made a number of recommendations for school funding reform in Australia, most notably the introduction of a schooling resource standard, which would provide the basis for all recurrent funding distributed to government and non-government schools. The Schooling Resource Standard (SRS) would have two elements: a base amount per student, plus additional funding to target forms of disadvantage.

The National Plan for School Improvement and the National Education Reform Agreement are the Government's response to the Review of Funding for Schooling.

As part of the National Plan for School Improvement, the Government is seeking to move all schools funding to a needs based funding mechanism from 1 January 2014. This will include:

- a base amount per student in 2014 of $9,271 for each primary student and $12,193 for each high school student;
- loadings to provide additional support for students and schools with factors that may result in disadvantage (based on a percentage of the base amount per student):
  - a set loading of up to $150,000 per school to support small primary schools and a set loading of up to $240,000 per school to support small secondary schools;
  - a loading range of 10 per cent to 80 per cent of the base SRS amount per student to support schools based on location;
  - a loading range of 15 to 50 per cent of the base SRS amount per student where student families are in the lowest income quartile;
  - a loading range of 7.5 to 37.5 per cent of the base SRS amount per student where student families are in the second lowest income quartile;
  - for Aboriginal and Torres Strait Islanders a loading range of 20 to 120 per cent of the base SRS amount per student; and
  - a flat loading of 10 per cent of the base SRS amount per student for students who lack English language proficiency.
- Loadings can be cumulative, so a single student or school can attract all loadings simultaneously.

Box 5: National Plan for School Improvement (continued)

A loading for students with a disability is currently being developed for introduction in 2015. A loading based on current resourcing levels will be available in 2014 and, pending agreement with other jurisdictions, the Government will continue the More Support for Students with Disabilities National Partnership for one year.

The Government has made an offer to States, Territories and non-government education authorities to implement the new needs-based funding model for schools. Under the proposed offer, current Commonwealth base funding would be indexed by 4.7 per cent per annum, while States and Territories would be required to increase their existing base funding by 3 per cent per annum. The total SRS would initially be indexed by 3.6 per cent per annum. After allowing for these parameters, the Commonwealth will provide an additional $9.8 billion over six years from 2014-15 to schools to transition to the SRS.

As at 10 May 2013, New South Wales has agreed to these reforms. The Government is in ongoing negotiations with the remaining States and Territories and non-government education authorities, and the offer will remain open until 30 June 2013. National Partnership funding will continue until current agreements cease.

Consistent with the Government's commitment, current funding levels will be maintained in order to ensure that schools are no worse off. Where a non-government school would receive lower funding based on the new funding model than it received from the Commonwealth in 2013, their 2013 funding will be indexed by a further 3 per cent per annum until such time as their funding matches the new funding model.

Box 6: Education spending trends

Over the period 2000-01 to 2012-13, education expenses grew at around 5.3 per cent per annum in real terms. This was largely driven by growth in a number of major programs covering higher education and assistance to government and non-government schools, which together account for around 80 per cent of total spending on education. A large increase in spending from 2008-09 to 2011-12 resulted from the introduction of fiscal stimulus measures under the *Building the Education Revolution* package. In 2010 and 2011, spending on higher education increased significantly, reflecting a rise in Commonwealth supported places as the sector prepared for demand-driven enrolments in 2012.

Trends in Major Programs

Average real expense growth in assistance to government and non-government schools has been around 4 per cent and 5 per cent per annum respectively over the period 2000-01 to 2012-13, while the Higher Education Support Program has seen growth of around 2.2 per cent per annum in real terms.

The implementation of the school funding reforms is expected to lead to relatively rapid growth in Commonwealth spending on school funding reflecting the importance of investing in our schools. After the six year implementation period, however, growth is likely to slow, rising in line with enrolment growth and agreed indexation rates.

Strong growth in student enrolments and more generous indexation arrangements have led to strong growth in higher education support in recent years. Beyond the forward estimates, student enrolment growth is not expected to continue at these higher levels and average real expense growth for the Higher Education Support Program is expected to stabilise at around 3 per cent per annum.

Health

The health function includes expenses relating to medical services funded through Medicare and the Private Health Insurance Rebate; payments to the States and Territories to deliver essential health services, including public hospitals; the Pharmaceutical Benefits and Repatriation Pharmaceutical Benefits Schemes; blood and blood products; population health initiatives; and health education and training services.

Table 8: Summary of expenses — health

	Estimates			Projections	
	2012-13	2013-14	2014-15	2015-16	2016-17
	$m	$m	$m	$m	$m
Medical services and benefits	25,307	25,552	27,430	28,918	30,548
Hospital services(a)	2,694	2,762	2,038	1,900	1,905
National Health Reform Payment	13,252	13,941	15,432	17,060	18,849
Pharmaceutical benefits and services	10,689	11,139	11,664	12,087	12,562
Aboriginal and Torres Strait Islander health	752	851	826	854	890
Health services	6,362	7,053	7,418	7,481	7,413
General administration	3,192	3,337	3,273	3,296	3,327
Total health	**62,249**	**64,636**	**68,081**	**71,597**	**75,493**

(a) The hospital services sub-function includes payments from the Commonwealth to the States and Territories for specific hospital improvement initiatives and is in addition to the bulk of hospital funding provided under the National health reform payment sub-function.

Total expenses for this function are estimated to increase by 1.7 per cent in real terms from 2012-13 to 2013-14, and by 8.6 per cent in real terms from 2013-14 to 2016-17. This increase is expected to be driven by higher demand for increasingly expensive health services, and a growing and ageing population.

The **medical services and benefits** sub-function, which primarily consists of Medicare and Private Health Insurance Rebate (PHIR) expenses, is 39.5 per cent of total estimated health expenses for 2013-14. Medicare services expenses are the major driver of growth in this sub-function helping to improve health outcomes for the community, including through access to advanced health services. Expenses are expected to increase by 0.8 per cent in real terms from 2012-13 and 2013-14, and are expected to grow by 15.3 per cent in real terms over the period 2013-14 to 2016-17, reflecting ongoing growth in the use of medical services and in the use of high value items on the Medicare Benefits Schedule.

The expected reduction in PHIR expenditure between 2012-13 and 2013-14 is due to a higher number of policy holders choosing to prepay their 2012-13 premiums in 2011-12. The reduction is also due to the estimated downward expenditure impact in 2013-14 of the 2012-13 MYEFO measure, *Private Health Insurance Rebate – removal of rebate on lifetime health cover loading*, which will be implemented on 1 July 2013.

Expenses for PHIR are expected to increase from 2013-14 to 2016-17 due to continued take up of private health insurance policies. The proportion of Australians with some form of private health insurance now stands around 55 per cent, providing a high level of access to private health services and taking pressure off the public system.

The major components of the medical services and benefits sub-function are set out in Table 8.1.

Table 8.1: Trends in the major components of medical services and benefits sub-function expenses[(a)]

	Estimates			Projections	
	2012-13	2013-14	2014-15	2015-16	2016-17
	$m	$m	$m	$m	$m
Medicare services	18,549	19,092	20,843	22,161	23,662
Private health insurance(a)	5,564	5,399	5,578	5,748	5,912
General medical consultations and services	928	916	912	904	908
Primary care practice incentives	281	208	223	229	234
Other	-15	-63	-126	-124	-168
Total	**25,307**	**25,552**	**27,430**	**28,918**	**30,548**

(a) Following changes to indexation, announced in the MYEFO, the estimated financial impact of premium growth on the forward estimates for the Private Health Insurance Rebate has been removed from the Contingency Reserve and included in the published estimates.

The Commonwealth's contribution to funding under the National Health Reform Agreement is reported through the **National Health Reform Payment** sub-function. The increase in expenses of 25.8 per cent in real terms from 2013-14 to 2016-17 reflects indexation of the Commonwealth's contribution to the provision of hospital services, growth in the volume of services, changes in the efficient price for hospital services, and the agreement that the Commonwealth will meet 45 per cent of the growth in the efficient price from 2014-15. Hospital services covered by the Government's contribution include all admitted services, programs that deliver hospital services in the home, and emergency department services. The Commonwealth will fund 50 per cent of efficient growth in public hospital services from 2017-18.

The **hospital services** sub-function includes payments to the States and Territories through a range of National Partnership Agreements, and support for veterans' hospital services. Expense growth for this sub-function is expected to fall by 35.9 per cent in real terms from 2013-14 to 2016-17. This fall is primarily due to the conclusion of several National Partnership Agreements for Public Hospitals over the forward years negotiated as part of the National Health Reform Agreement. From 2014-15 onwards public hospital services will receive significant additional funding of $3.8 billion between 2014-15 and 2016-17 through the Commonwealth's agreement to fund 45 per cent of the growth in the efficient price, leading to a net increase in funding to the States for hospitals. This funding is accounted for within the National Health Reform Payment sub-function.

Growth in the **pharmaceutical benefits and services** sub-function over the budget and forward estimates is mainly driven by increasing demand for pharmaceutical services. Pharmaceutical Benefits Scheme (PBS) growth between 2012-13 and 2013-14 of 2.0 per cent in real terms is lower than historical trends, largely reflecting the ongoing impact of the 2010-11 Budget measure *Pharmaceutical Benefits Scheme — further pricing reform*. This measure requires manufacturers to disclose to the Government the actual price at which they sell medicines to wholesalers and pharmacies. Growth of 4.9 per cent from 2013-14 to 2016-17 reflects the expectation that increased transparency will help to stabilise growth in the short to medium term.

PBS estimates do not include the potential listing of new drugs following recommendations by the Pharmaceutical Benefits Advisory Committee.

The major components of the pharmaceutical benefits and services sub-function are set out in Table 8.2.

Table 8.2: Trends in the major components of pharmaceutical benefits and services sub-function expenses

	Estimates			Projections	
	2012-13	2013-14	2014-15	2015-16	2016-17
	$m	$m	$m	$m	$m
Pharmaceutical benefits (concessional)(a)	5,642	5,801	6,042	6,218	6,399
Pharmaceutical benefits (highly specialised and other drugs dispensed in hospitals)(b)	2,264	2,435	2,581	2,747	2,933
Pharmaceutical benefits (general)(c)	1,530	1,613	1,721	1,817	1,922
Veterans' pharmaceutical benefits	449	415	395	371	370
Payments for wholesalers and pharmacy programs	209	212	216	219	219
Other	595	663	709	715	719
Total	**10,689**	**11,139**	**11,664**	**12,087**	**12,562**

(a) Concessional benefits are those provided through community pharmacies for Centrelink concession card holders.
(b) Highly specialised drugs are subsidised by the Commonwealth Government through hospitals.
(c) General benefits are those provided through community pharmacies for people without concession cards.

Expenses in the **health services** sub-function include Commonwealth expenses associated with the delivery of population health, mental health, hearing services, blood and blood products, research and other allied health services, e-Health, and health infrastructure funding through the Health and Hospitals Fund (HHF). From 2012-13 to 2013-14 expenses on mental health are expected to increase by 28.9 per cent in real terms, and by 12.3 per cent in real terms from 2013-14 to 2016-17, driving strong expenses growth in the health services sub-function. This reflects the implementation of the Government's *National Mental Health Reform* package announced in the 2011-12 Budget. Growth in elements of health services expenses is partially offset by reducing expenses on Health Infrastructure, as projects rolled out under the HHF near completion.

The major components of the health services sub-function are set out in Table 8.3.

Table 8.3: Trends in the major components of health services sub-function expenses

	Estimates			Projections	
	2012-13	2013-14	2014-15	2015-16	2016-17
	$m	$m	$m	$m	$m
Health infrastructure	1,345	1,522	1,828	1,559	999
National blood agreement management	1,077	1,127	1,203	1,281	1,370
Blood and organ donation services (Health)	728	772	823	872	931
Mental health	381	502	546	598	606
Other	2,831	3,130	3,018	3,171	3,507
Total	**6,362**	**7,053**	**7,418**	**7,481**	**7,413**

The **general administration** sub-function includes the Government's investment in health workforce measures and support for rural health initiatives. Expenditure for this sub-function is expected to fall in real terms by 7.3 per cent from 2013-14 to 2016-17. This is a result of the recent measures the Government has undertaken to minimise the growth in program delivery costs.

Expenses in the **Aboriginal and Torres Strait Islander health** sub-function will increase by 10.7 per cent in real terms from 2012-13 to 2013-14 and fall by 2.7 per cent in real terms from 2013-14 to 2016-17, due to the effect of movements of funds and a reduction in payments through National Partnerships over the forward estimates. However, Aboriginal and Torres Strait Islander people across Australia will continue to access mainstream services as well as Indigenous-specific services. Substantial investments in Indigenous health also occur through other health sub-functions.

Box 7: Health spending trends

Spending on health grew by 4.9 per cent per annum in real terms from 2000-01 to 2012-13. This strong growth reflects advancements in, and rising cost of, medical technology as well as increasing demand for health services due to population growth and ageing.

Trends in Major Programs

A number of major health programs have seen and will continue to see sustained spending growth, including the MBS, the PBS, and payments to the States and Territories under the National Healthcare Agreement and the National Health Reform Agreement. Over the period from 2000-01 to 2012-13, average real expense growth for the MBS was around 5.2 per cent per annum, 4.2 per cent per annum for the PBS, while health payments to the States and Territories had real expense growth of around 3.5 per cent per annum. The Private Health Insurance Rebate has also experienced real growth of around 6.3 per cent per annum.

Spending on the MBS and PBS is impacted by population growth and by the ageing population; however, spending is also influenced by developments in health technology and the resulting listing of new products and services. Payments to the States and Territories for health care under the National Health Reform Agreement will grow at around 8 per cent per annum in real terms from 2016-17. This growth is largely due to continued growth in the use of hospital services and the Commonwealth's commitment to increase its contribution to fund 50 per cent of the growth in the volume and the efficient price of hospital services from 2017-18.

Social security and welfare

The social security and welfare function includes expenses for pensions and services to the aged; assistance to the unemployed, people with disabilities and families with children; and income support and compensation for veterans and their dependants. It also includes assistance provided to Indigenous Australians which has not been included under other functions.

Table 9: Summary of expenses — social security and welfare

	Estimates			Projections	
	2012-13	2013-14	2014-15	2015-16	2016-17
	$m	$m	$m	$m	$m
Assistance to the aged	50,984	54,754	57,620	61,648	66,251
Assistance to veterans and dependants	7,046	7,006	6,880	6,795	6,635
Assistance to people with disabilities	23,873	25,479	27,208	29,156	32,396
Assistance to families with children	35,256	34,945	35,534	36,353	37,158
Assistance to the unemployed and the sick	8,559	9,550	10,559	9,830	9,859
Other welfare programs	1,663	1,637	1,649	1,687	1,763
Assistance for Indigenous Australians nec	1,145	1,043	939	928	1,053
General administration	3,861	3,731	3,631	3,513	3,365
Total social security and welfare	**132,388**	**138,145**	**144,021**	**149,911**	**158,479**

Expenses in the social security and welfare function are estimated to increase by 2.2 per cent in real terms from 2012-13 to 2013-14 and by 6.7 per cent in real terms from 2013-14 to 2016-17. The sub-functions contributing most to the growth are **assistance to the aged**, at 20.9 per cent and **assistance to people with disabilities** at 26.2 per cent in real terms over the period 2012-13 to 2016-17.

The principal driver of growth over the forward estimates for the **assistance to the aged** sub-function is income support for seniors (Age Pension), which is estimated to grow by 5.7 per cent in real terms from 2012-13 to 2013-14 and 12.5 per cent in real terms from 2013-14 to 2016-17. The number of eligible Age Pension recipients will grow by 2.9 per cent in 2013-14 and will increase over the forward estimates to 2016-17 by 10.6 per cent.

A secondary contributor to growth from 2013-14 to 2016-17 is an increase in expenses associated with home care, home support and the residential and flexible aged care programs, largely reflecting demographic factors.

The reduction in National Partnership Payments — Assistance to the Aged from 2013-14 to 2016-17 reflects the expiry of National Partnership Agreements with Western Australia and Victoria on 30 June 2014. All other States and Territories transferred funding and policy responsibility for aged care to the Commonwealth from 1 July 2012, with this funding now included in the Home Support Program. Victoria has now also agreed to transfer these responsibilities, with the details to be finalised.

The forecast increase in the cost of veterans' community care and support over the forward estimates is mainly attributable to a growing number of veterans and war widow(ers) accessing residential aged care.

The major components of the assistance to the aged sub-function are outlined below in Table 9.1.

Table 9.1: Trends in the major components of assistance to the aged sub-function expenses

	Estimates			Projections	
	2012-13	2013-14	2014-15	2015-16	2016-17
	$m	$m	$m	$m	$m
Income support for seniors	36,546	39,442	42,065	45,038	48,437
Residential and flexible care	8,311	8,811	9,325	9,979	10,573
Veterans' community care and support	1,603	1,695	1,814	1,956	2,078
Home support	1,386	1,485	1,603	1,720	1,863
Home care	1,144	1,205	1,294	1,410	1,736
National partnership payments – assistance to the aged	801	843	304	316	329
Mature age income support	510	439	343	309	266
Allowances, concessions and services for for seniors	235	313	331	349	374
Ageing and service improvement	160	196	206	218	220
Workforce and quality	152	175	176	203	219
Access and information	123	139	137	136	145
Other	13	11	22	14	11
Total	**50,984**	**54,754**	**57,620**	**61,648**	**66,251**

The main components of the **assistance to families with children** sub-function are family tax benefit payments, child care fee assistance and income support to parents. Growth in expenses under the sub-function is being driven by the growing number of families accessing Child Care Fee Assistance for child care, indexation of Child Care Benefit expenses, and growth in child care costs resulting in increased payments under the Child Care Rebate. This is estimated to drive growth in Child Care Fee Assistance of 6.0 per cent in real terms from 2012-13 to 2013-14 and 10.2 per cent in real terms from 2013-14 to 2016-17.

The Government is providing over $314.2 million in child care assistance over five years to support workforce measures for early childhood education. Of this, up to $300 million over two years will be provided to help fund wage increases for Long Day Care educators, through the Early Years Quality Fund measure. This package is aimed at assisting in the retention of the early childhood workforce, and providing better outcomes for families with young children.

Growth in Family Tax Benefit expenses is estimated to remain relatively flat over the forward estimates. This reflects 2013-14 Budget measures, including not proceeding with the Family Tax Benefit Part A component of the *Spreading the Benefits of the Boom* and extensions to the current indexation pauses on upper income thresholds and supplements. While average payment rates will continue to increase, this will be offset by further reductions in the customer population base as incomes increase.

Expenses in the parent and baby payment component of the sub-function will decline across the forward estimates reflecting the changes to the financial support arrangements to families following the birth or adoption of a child, through the replacement of the Baby Bonus from 1 March 2014 with an increase to the rate of Family Tax Benefit Part A.

Expenses under parents' income support are forecast to decrease by 7.3 per cent in real terms from 2012-13 to 2013-14, as a result of customers moving from parent income support to Newstart Allowance (with funding reflected in the assistance to the unemployed and the sick sub-function), with a smaller decrease of about 1 per cent in real terms expected from 2013-14 to 2016-17. From 1 January 2013, all parenting payment recipients who were on the payment prior to 1 July 2006 ('grandfathered recipients') will now be assessed under the same eligibility requirements as new parenting payment recipients. As a result of this change, grandfathered recipients with their youngest child aged six years or over (for partnered recipients) or eight years or over (for single recipients) will cease to be eligible for parenting payment and will transition on to Newstart Allowance unless they exceed the income threshold for eligibility.

The major components of the assistance to families with children sub-function are set out in Table 9.2.

Table 9.2: Trends in the major components of assistance to families with children sub-function expenses

	Estimates			Projections	
	2012-13	2013-14	2014-15	2015-16	2016-17
	$m	$m	$m	$m	$m
Family tax benefit	20,304	20,289	20,561	20,768	21,005
Parents income support	5,572	5,275	5,320	5,498	5,628
Child care fee assistance	4,661	5,048	5,373	5,673	5,982
Parent and baby payments	2,351	2,080	1,929	2,006	2,094
Child support	1,359	1,372	1,407	1,443	1,480
Support for the child care system	505	427	480	497	508
Family support	233	157	260	266	256
Family relationship services	163	169	174	177	180
National Partnership Payments - child care(a)	78	97	nfp	nfp	nfp
Other	30	31	30	25	25
Total	**35,256**	**34,945**	**35,534**	**36,353**	**37,158**

(a) Estimates for National Partnership Payments — child care from 2014-15 are not for publication.

The increase in projected expenses in the **assistance to people with disabilities** sub-function from 2012-13 across the forward estimates is driven primarily by *DisabilityCare Australia* (the national disability insurance scheme).

Expenses for the Disability Support Pension (DSP) are estimated to grow by 2.5 per cent in real terms from 2012-13 to 2013-14 and 6.8 per cent in real terms from 2013-14 to 2016-17 largely due to increases in payment rates. Following recent changes to assessment arrangements, the number of DSP recipients are expected to grow at 0.4 per cent per annum on average over the forward estimates, substantially lower than the previous five year period (2007-08 to 2011-12) when recipient growth was 3.1 per cent per annum on average.

Expenses for income support for carers are estimated to grow by 8.5 per cent in real terms from 2012-13 to 2013-14 and 24.6 per cent in real terms from 2013-14 to 2016-17, largely as a result of an increase in payment rates due to recent Government initiatives, such as the Household Assistance Package, and anticipated growth in the number of people receiving the Carer Payment.

DisabilityCare Australia is another major growth component in the sub-function over the forward estimates, reflecting establishment costs and the anticipated increase in numbers of people with disability accessing the new scheme. The transition to a full national disability care and support system is reported in Box 8 below.

The major components of the assistance to people with disabilities sub-function are outlined below in Table 9.3.

Table 9.3: Trends in the major components of assistance to people with disabilities sub-function expenses

	Estimates			Projections	
	2012-13	2013-14	2014-15	2015-16	2016-17
	$m	$m	$m	$m	$m
Disability support pension	14,852	15,549	16,280	17,005	17,860
Income support for carers	6,206	6,878	7,630	8,352	9,213
Assistance to the States for disability services	1,273	1,336	1,408	1,475	1,545
Disability employment services	936	928	978	1,022	1,027
DisabilityCare Australia	68	191	312	604	1,905
Services and support for people with a disability	318	333	317	320	325
Other	220	263	282	378	521
Total	**23,873**	**25,479**	**27,208**	**29,156**	**32,396**

Box 8: Transition to a full DisabilityCare Australia

The Australian, State and Territory Governments have committed to *DisabilityCare Australia* (the national disability insurance scheme), jointly moving forward to establish a national disability support system across Australia for people with significant and permanent disability.

The Government will provide a total of $19.3 billion to *DisabilityCare Australia* over seven years from 2012-13, inclusive of the redirection of existing disability funding. This brings the Australian Government's total new investment in *DisabilityCare Australia* to $14.3 billion over the period.

The launch phase of *DisabilityCare Australia* will provide eligible participants with reasonable and necessary care and support tailored to their individual circumstances in South Australia (for children aged 0-14), Tasmania (for young adults aged 15-24), the Hunter region in New South Wales (NSW) and the Barwon area of Victoria from 1 July 2013; and in the Australian Capital Territory (ACT) and the Barkly region of the Northern Territory (NT) from 1 July 2014.

DisabilityCare Australia will provide full coverage in NSW, South Australia, and the ACT by 1 July 2018 and in Victoria, Queensland, Tasmania and the Northern Territory from 1 July 2019. The Government is committed to ongoing negotiations regarding full implementation of *DisabilityCare Australia*.

The Government will also assist people with disability who are not eligible for an individual package of care and support, but still experience barriers to social and economic participation. The general assistance to be provided by *DisabilityCare Australia* will include: local area coordination, information, linkage and referral; community awareness; and capacity building in the disability sector, including support through grants to organisations.

Further information can be found at the *DisabilityCare Australia* website www.ndis.gov.au, in the joint press release of 1 May 2013 issued by the Prime Minister, Deputy Prime Minister and Treasurer, and the Minister for Families, Community Services and Indigenous Affairs, Minister for Disability Reform and Budget Paper No. 2, *Budget Measures 2013-14*.

Expenses for the **assistance to the unemployed and the sick** sub-function are forecast to increase by 9.2 per cent in real terms from 2012-13 to 2013-14 and to decrease by 4.0 per cent in real terms from 2013-14 to 2016-17. The increased expenses in 2013-14 partly reflect changes to eligibility for parenting payment that commenced on 1 January 2013. Under the new arrangements, previously grandfathered parenting payment recipients are being transitioned on to Newstart Allowance unless they exceed the income threshold for eligibility. The decrease from 2014-15 reflects a projected decline in the unemployment rate.

Expenses on **assistance to veterans and dependants** are forecast to fall over the forward estimates, predominantly reflecting an expected natural decline in the number of beneficiaries.

Expenses for the **general administration** sub-function are forecast to decrease from 2012-13 to 2016-17 due to administrative efficiencies generated within the Human Services portfolio and the structural reforms implemented under the Service Delivery Reform initiative.

Expenses for the **assistance for Indigenous Australians not elsewhere classified (nec)** sub-function are estimated to decrease by 10.8 per cent in real terms from 2012-13 to 2013-14 and by 6.1 per cent in real terms from 2013-14 to 2016-17. The decrease in expenses in this classification is primarily due to the redirection of funds from the Community Development Employment Projects program from 1 July 2013 to the Remote Jobs and Communities program, which is classified under the other economic affairs function and does not indicate a reduction in expenses.

Further, funding from 2012-13 for the *Stronger Futures in the Northern Territory* package is partly classified under the assistance for Indigenous Australians nec sub-function, but most of the expenditure associated with this package is classified under the health, education, public order and safety, and other economic affairs functions.

Housing and community amenities

The housing and community amenities function includes expenses for the Australian Government's contribution to the National Affordable Housing Specific Purpose Payments and related National Partnerships, other Australian Government housing programs, the expenses of Defence Housing Australia (DHA), and various regional development and environmental protection programs.

Table 10: Summary of expenses — housing and community amenities

	Estimates			Projections	
	2012-13	2013-14	2014-15	2015-16	2016-17
	$m	$m	$m	$m	$m
Housing	2,877	3,361	3,183	3,146	3,377
Urban and regional development	560	660	782	596	442
Environment protection	3,460	4,754	4,965	2,766	3,775
Total housing and community amenities	**6,898**	**8,775**	**8,930**	**6,508**	**7,594**

Total expenses under the housing and community amenities function are estimated to increase by 24.5 per cent in real terms from 2012-13 to 2013-14 and decline by 19.5 per cent in real terms over the period 2013-14 to 2016-17.

The **housing** sub-function contains initiatives relating to the Australian Government's contribution to the National Affordable Housing Specific Purpose Payments and related National Partnerships, provision of housing for the general public and people with special needs, and the expenses of the DHA.

Expenses for this sub-function are estimated to grow by 14.4 per cent in real terms from 2012-13 to 2013-14 and then decrease by 6.5 per cent in real terms over the period 2013-14 to 2016-17. An expected increase in DHA expenses due to market based rent increases on houses provided to DHA is driving estimated growth in 2013-14. DHA is also undertaking an acquisition and construction program that will guarantee the supply of land for an ongoing construction program, add additional properties, and upgrade and replace existing housing stock. The increase in expenses for 2013-14 is also supported by increased funding under the National Partnership Agreement on Remote Indigenous Housing.

The **urban and regional development** sub-function comprises regional development programs and services to territories, including the Regional Development Australia Fund (RDAF). Expenses are expected to fluctuate over the forward estimates, consistent with the varying nature of the projects being undertaken, and the multiple funding rounds being held. This funding will peak in 2014-15 coinciding with the fifth RDAF funding round.

The **environment protection** sub-function includes expenses for a variety of initiatives including the protection and conservation of the environment, water and waste management, pollution abatement and environmental research. The large increase in expenses from 2012-13 to 2013-14 is primarily due to the implementation of various programs under the *Clean Energy Future* package, including the Jobs and Competitiveness Program, Energy Security Fund and Biodiversity Fund. The significant variations reducing expenses after 2014-15 are primarily due to the impact of revised carbon price projections on the Jobs and Competitiveness Program and Energy Security Fund.

Recreation and culture

The recreation and culture function includes expenses to support public broadcasting and cultural institutions, funding for the arts and the film industry, assistance to sport and recreation activities, as well as the management and protection of national parks and other world heritage areas. This function also includes expenses relating to the protection and preservation of historic sites and buildings, including war graves.

Table 11: Summary of expenses — recreation and culture

	Estimates			Projections	
	2012-13	2013-14	2014-15	2015-16	2016-17
	$m	$m	$m	$m	$m
Broadcasting	1,748	1,761	1,682	1,680	1,656
Arts and cultural heritage	1,118	1,179	1,164	1,095	1,154
Sport and recreation	375	388	363	317	322
National estate and parks	400	368	342	341	336
Total recreation and culture	**3,641**	**3,696**	**3,551**	**3,433**	**3,468**

Total expenses under the recreation and culture function are estimated to decrease by 0.6 per cent in real terms from 2012-13 to 2013-14 and by 12.7 per cent over the period 2013-14 to 2016-17.

Expenses under the **broadcasting** sub-function are expected to fall in real terms from 2013-14 to 2014-15, reflecting the completion of the roll-out of the Government's national digital television switchover program. This is offset, to some extent, by an increase in real terms in 2013-14 of funding to the national broadcasters.

Table 11.1 provides further details of the major components of broadcasting sub-function expenses.

Table 11.1: Trends in the major components of broadcasting sub-function expenses

	Estimates			Projections	
	2012-13	2013-14	2014-15	2015-16	2016-17
	$m	$m	$m	$m	$m
ABC television	627	647	659	674	664
ABC radio	338	349	355	363	358
SBS television	214	250	242	243	233
Broadcasting and digital television	221	168	98	54	45
Access to digital TV services	101	109	114	117	120
SBS digital transmission and distribution	69	81	83	82	81
ABC analog transmission	89	80	76	77	79
Other	89	77	55	70	76
Total	**1,748**	**1,761**	**1,682**	**1,680**	**1,656**

Expenses under the **arts and cultural heritage** sub function are forecast to decrease between 2013-14 and 2015-16 due to the anticipated reduction in payments under the Australian Screen Production Incentive. This decrease in expenses is partly offset by the Government's commitment to the arts through its *Creative Australia* policy announced on 13 March 2013. This includes additional funding to the Australia Council for the Arts, along with six of Australia's national elite arts training organisations, the development of a new national arts curriculum, the development and promotion of innovative Australian stories and content for film, television, games and online productions, and a range of initiatives to recognise the centrality of Aboriginal and Torres Strait Islander cultures in national life. Expenses are also expected to increase in 2016-17 as a result of the assistance to be provided for the filming in Australia of the Walt Disney Studios feature film 20,000 Leagues Under the Sea: Captain Nemo.

The **sport and recreation** sub-function includes programs to improve participation in sport and recreation activities and achieve excellence in high performing athletes. The forecast decrease in expenses from 2014-15 reflects, in part, completion of preparatory work on the Asian Football Cup.

Fuel and energy

The fuel and energy function includes expenses for the Fuel Tax Credits, Cleaner Fuels, and Product Stewardship Waste (Oil) schemes, all administered by the Australian Taxation Office. It also includes expenses related to improving Australia's energy efficiency, resource related initiatives, and programs to support the production or use of alternative fuels, including ethanol and biodiesel.

Table 12: Summary of expenses — fuel and energy

	Estimates			Projections	
	2012-13	2013-14	2014-15	2015-16	2016-17
	$m	$m	$m	$m	$m
Fuel and energy	6,168	7,586	7,557	7,701	7,574
Total fuel and energy	**6,168**	**7,586**	**7,557**	**7,701**	**7,574**

Fuel and energy expenses are estimated to increase by 20.4 per cent in real terms from 2012-13 to 2013-14, and fall by 7.1 per cent in real terms over the period 2013-14 to 2016-17.

The major program within this function is the Fuel Tax Credits Scheme, spending on which is expected to increase by $352 million in 2013-14, reflecting increased claims by eligible businesses commensurate with higher diesel consumption, particularly in the mining industry. The increase in expenses for the Scheme in 2015-16 is the result of the forecast reduction in the projected carbon price when that price moves from fixed to floating, reflecting the lower than expected international carbon prices.

Table 12.1 provides further details of the **fuel and energy** sub-function.

Table 12.1: Trends in the major components of fuel and energy sub-function expenses

	Estimates			Projections	
	2012-13	2013-14	2014-15	2015-16	2016-17
	$m	$m	$m	$m	$m
Fuel tax credits scheme	5,519	5,871	5,906	6,270	6,360
Australian Renewable Energy Agency (ARENA)	129	509	367	260	150
Resources related initiatives and management	242	340	423	483	311
Other	278	866	861	688	753
Total	**6,168**	**7,586**	**7,557**	**7,701**	**7,574**

The fluctuation in expenses under the resources related initiatives and management component from 2012-13 to 2016-17 reflects the advancement of projects under the Carbon Capture and Storage Flagships program.

The Australian Renewable Energy Agency (ARENA) administers a range of Government support programs for research and development, demonstration and commercialisation of renewable energy projects. The fluctuation in expenses following

ARENA's commencement in 2012-13 is largely driven by the expected timing of projects and the re-phasing of funding to beyond the forward estimates which extends funding for ARENA to 2021-22.

The increase in expenses in 2013-14 under the Other component partly reflects the timing of the rollout of the *Coal Sector Jobs* package. The fluctuation in expenses from 2015-16 is due in part to the reduction in funding for this package in line with revised carbon price assumptions. The package assists the most emissions-intensive coal mines following the introduction of the carbon price by providing financial assistance to the operators of these mines to assist them in supporting jobs and local communities.

Agriculture, forestry and fishing

The agriculture, forestry and fishing function includes expenses to support assistance to primary producers, forestry, fishing, land and water resources management, quarantine services and contributions to research and development.

Table 13: Summary of expenses — agriculture, forestry and fishing

	Estimates			Projections	
	2012-13	2013-14	2014-15	2015-16	2016-17
	$m	$m	$m	$m	$m
Wool industry	54	58	55	57	57
Grains industry	173	182	189	193	176
Dairy industry	53	54	54	56	57
Cattle, sheep and pig industry	173	180	182	182	184
Fishing, horticulture and other agriculture	242	252	250	248	244
General assistance not allocated to specific industries	28	30	29	29	34
Rural assistance	139	194	179	143	142
Natural resources development	1,052	998	1,083	1,420	1,093
General administration	690	708	688	720	716
Total agriculture, forestry and fishing	**2,605**	**2,654**	**2,709**	**3,047**	**2,702**

Total expenses under this function are estimated to decrease by 0.3 per cent in real terms from 2012-13 to 2013-14, and by 5.3 per cent in real terms over the period 2013-14 to 2016-17.

The real decrease in 2013-14 is largely due to a reduction in expenses under the **natural resources development** sub-function. Table 13.1 provides further details of the natural resources development sub-function.

Table 13.1: Trends in the major components of natural resources development sub-function expenses

	Estimates			Projections	
	2012-13	2013-14	2014-15	2015-16	2016-17
	$m	$m	$m	$m	$m
Water reform(a)	703	708	854	1,169	846
Sustainable management - natural resources	42	33	21	12	11
Forestry industry	8	8	7	7	7
Other	299	249	201	232	229
Total	**1,052**	**998**	**1,083**	**1,420**	**1,093**

(a) Water Reform includes the programs: National Partnership Payments — Water and Natural Resources; Water Reform and Commonwealth Environment Water.

The majority of expenses under the **natural resources development** sub-function are for the *Water for the Future* package, which comprises urban and rural programs, including funding for water purchasing (included under net capital investment), irrigation modernisation, desalination, recycling and stormwater capture. The increase in expenses under the water reform component after 2013-14 largely reflects a continued scaling up of projects under the Sustainable Rural Water Use and

Infrastructure Program, peaking in 2015-16. The decrease in expenses from 2012-13 to 2016-17 under the Other component reflects the progressive completion of projects under the Murray-Darling Basin Authority's Environmental Works and Measures program and reductions as a consequence of lower annual contributions from the Basin States under the Murray-Darling Basin Agreement.

Expenses under the **rural assistance** sub-function are estimated to increase by 36.6 per cent in real terms between 2012-13 and 2013-14. This is primarily due to the funding profile of the Carbon Farming Futures program announced in the 2011-12 MYEFO, with expenses peaking in 2013-14, and the introduction of concessional loans for farmers under the *Farm Finance* initiative announced in the 2013-14 Budget. Over the period 2013-14 to 2016-17, expenses in the sub-function are estimated to decrease by 31.9 per cent in real terms. This is due to the funding profile of the Carbon Farming Futures program declining over the forward estimates, the ending of the Transitional Farm Family Payment announced in the 2012-13 Budget, and a decline in expenses following the provision of concessional loans over two years to 2014-15 under the *Farm Finance* initiative. This is partially offset by an increase in expenses under the *National Drought Program Reform* package announced in the 2013-14 Budget.

Mining, manufacturing and construction

The mining, manufacturing and construction function includes expenses for programs designed to promote the efficiency and competitiveness of Australian industries. The major components include the research and development tax incentive and programs specific to the automotive, textile, clothing and footwear industries.

Table 14: Summary of expenses — mining, manufacturing and construction

	Estimates			Projections	
	2012-13	2013-14	2014-15	2015-16	2016-17
	$m	$m	$m	$m	$m
Mining, manufacturing and construction	2,267	2,431	2,734	2,592	2,328
Total mining, manufacturing and construction	**2,267**	**2,431**	**2,734**	**2,592**	**2,328**

Total expenses under the mining, manufacturing and construction function are expected to increase by 5.0 per cent in real terms from 2012-13 to 2013-14. This is due to the introduction of new initiatives under the Industry and Innovation Statement *A Plan for Australian Jobs,* including opening up opportunities through *Australian Industry Participation* and the establishment of *Industry Innovation Precincts*.

While expenses are expected to increase by 1.7 per cent from 2013-14 to 2015-16, they are expected to decline by 12.4 per cent in 2016-17 due to the *General Motors Holden – next generation vehicles – contribution* measure ending and the winding down of the clean technology investment initiative which ends in 2017-18.

The estimated increase in expenses from 2013-14 under the research and development tax incentive program, administered by the Australian Taxation Office, reflects an increase in the number of expected claims across the forward estimates.

Table 14.1 provides further details of the major components of the mining, manufacturing and construction sub-function.

Table 14.1: Trends in major components of mining, manufacturing and construction sub-function expenses

	Estimates			Projections	
	2012-13	2013-14	2014-15	2015-16	2016-17
	$m	$m	$m	$m	$m
Research and development tax incentive	1,471	1,410	1,470	1,547	1,628
Industry development and investment	599	826	1,072	868	523
Other	197	195	192	177	177
Total	**2,267**	**2,431**	**2,734**	**2,592**	**2,328**

Transport and communication

The transport and communication function includes expenses to support the infrastructure and regulatory framework for Australia's transport and communication sectors.

Table 15: Summary of expenses — transport and communication

	Estimates			Projections	
	2012-13	2013-14	2014-15	2015-16	2016-17
	$m	$m	$m	$m	$m
Communication	589	582	561	500	500
Rail transport	1,032	1,425	1,406	1,396	457
Air transport	208	210	209	204	208
Road transport	2,529	3,501	3,190	2,660	2,863
Sea transport	319	342	353	366	381
Other transport and communication	326	393	836	880	992
Total transport and communication	**5,002**	**6,453**	**6,555**	**6,005**	**5,401**

Total expenses under this function are estimated to increase by 26 per cent in real terms between 2012-13 and 2013-14 primarily reflecting increased funding for the road and rail transport sectors. Expenses are estimated to decrease from 2014-15 due to the completion of a number of major projects.

The estimated expenses for the **communication** sub-function relate to communication activities and support for the digital economy through the Department of Broadband, Communications and the Digital Economy, the Telecommunications Universal Service Management Agency and the Australian Communications and Media Authority. The decline in real terms of estimated expenses from 2012-13 reflects the completion of several digital productivity measures, the planned completion of activities related to the renewal, replanning and sale of radio frequency spectrum.

Total expenses under the **rail transport** sub-function are estimated to increase in 2013-14 reflecting a higher level of funding for the Regional Rail Link project in Victoria funded from the Building Australia Fund (BAF), which is part of the Nation Building Plan for the Future package (the package) included in the 2009-10 Budget. The package included projects such as the Regional Rail Link project in Victoria, including a $3.2 billion contribution over six years with expected payments of $858 million in 2013-14 and $500 million in 2014-15 and 2015-16 respectively. The completion of this funding, together with the completion in 2013-14 and 2014-15 of other metropolitan rail infrastructure projects funded under the package, and $232 million in 2015-16 for the Torrens and Goodwood Junctions project in South Australia, results in an expected decrease in expenses by 2016-17.

The estimated expenses for the **air transport** and **sea transport** sub-functions predominantly relate to the activities of the safety regulators — the Civil Aviation Safety Authority (CASA), the Australian Maritime Safety Authority (AMSA) and the Australian Transport Safety Bureau (ATSB). The 3.4 per cent increase in real terms in estimated expenses from 2013-14 over the forward estimates for the **sea transport** sub-function is due to the expansion of the ATSB's safety investigation responsibilities under the National Transport Reforms.

The estimated 8 per cent decline in expenses in the **air transport** sub-function from 2013-14 over the forward estimates is primarily due to the completion of airstrip improvements under the Regional Aviation Access program by mid-2015.

The expenses under the **road transport** sub-function primarily consist of grants provided under the Nation Building program, but also includes funding provided for projects under the BAF. Expense estimates for this sub-function fluctuate year on year based on the number and value of projects funded, with payments corresponding to project timelines. The 2013-14 Budget includes funding for a number of new projects from 2014-15 onwards, including upgrades of the Bruce Highway in Queensland, the M80 in Victoria, South Road in South Australia, Sydney Motorways in New South Wales and the Perth Urban Transport and Freight Corridor Upgrade — Gateway project. Road transport funding from 2013-14 remains at historically high levels, reflecting previous commitments to fund the continued duplication of the Pacific Highway, the Legacy Way — Northern Link Tunnel in Brisbane, projects on the Western Highway and Princes Highway in Victoria and the Majura Parkway in the Australian Capital Territory.

The increase in estimated expenses in the **other transport and communication** sub-function reflects the increase in the funding of infrastructure projects from the Regional Infrastructure Fund (RIF) announced in the 2010-11 Budget. Full funding for the RIF is included in this sub-function, and a number of new projects to be funded are expected to start construction from 2014-15, including the Great Northern Highway — Muchea to Wubin Stage 2 in Western Australia and Warrego Highway upgrades in Queensland.

Other economic affairs

The other economic affairs function includes expenses on tourism and area promotion, labour market assistance, immigration, industrial relations and other economic affairs not elsewhere classified (nec).

Table 16: Summary of expenses — other economic affairs

	Estimates			Projections	
	2012-13	2013-14	2014-15	2015-16	2016-17
	$m	$m	$m	$m	$m
Tourism and area promotion	181	189	187	169	174
Total labour and employment affairs	4,271	4,358	4,319	4,381	4,327
Vocational and industry training	1,658	1,590	1,581	1,545	1,541
Labour market assistance to job seekers and industry	1,803	2,059	2,025	2,120	2,069
Industrial relations	809	708	712	716	717
Immigration	3,575	4,376	3,617	3,461	3,065
Other economic affairs nec	2,337	2,359	2,362	2,342	2,333
Total other economic affairs	**10,365**	**11,283**	**10,485**	**10,354**	**9,899**

Total expenses under the other economic affairs function are expected to increase by 6.6 per cent in real terms from 2012-13 to 2013-14 and decrease by 18.4 per cent in real terms from 2013-14 to 2016-17.

Tourism and area promotion sub-function expenses are expected to increase from 2012-13 to 2013-14 due to increased funding for the Tourism Industry Regional Development Fund, which supports the development of tourism products and services in regional areas, and the Asia Marketing Fund, which supports the promotion of Australia to growing markets in Asia. The subsequent projected decrease in expenses is the result of the winding down of several tourism related initiatives, including the TQUAL Grants program from the end of 2014-15.

Expenses under the **vocational and industry training** sub-function are expected to decrease in real terms by 6.1 per cent from 2012-13 to 2013-14 and by 9.9 per cent in real terms from 2013-14 to 2016-17.

Expenses under the **labour market assistance to job seeker and industry** sub-function are expected to increase by 11.8 per cent in real terms between 2012-13 and 2013-14 partly due to the scheduled commencement of the Remote Jobs and Communities program on 1 July 2013. Expenses between 2013-14 and 2016-17 are expected to decrease by 6.5 per cent in real terms due to a forecast fall in client numbers associated with the projected decline in the unemployment rate.

The higher estimated expenses in the **industrial relations** sub-function in 2012-13 compared to later years is due to higher demand for assistance under the General Employee Entitlements and Redundancy Scheme (GEERS) and the Fair Entitlements Guarantee scheme (FEG), which replaced GEERS on 5 December 2012. These schemes are to assist employees of bankrupt organisations who are owed certain employee entitlements. The increased demand in 2012-13 is due to higher than expected numbers of eligible employees involving certain large corporate bankruptcies. The FEG expenses from 2013-14 are expected to return to levels experienced under GEERS prior to 2012-13. Over the period 2013-14 to 2016-17 expenses are estimated to decrease by 5.8 per cent in real terms.

Table 16.1: Trends in major components of the immigration sub-function expenses

	Estimates			Projections	
	2012-13	2013-14	2014-15	2015-16	2016-17
	$m	$m	$m	$m	$m
Offshore Asylum Seeker Management	2,106	2,867	1,736	1,463	1,428
Visa and Migration Services	593	603	612	660	675
Settlement Services for Migrants and Refugees	240	288	258	280	298
Other	636	618	1,011	1,058	664
Total	**3,575**	**4,376**	**3,617**	**3,461**	**3,065**

The main components of the **immigration sub-function** relate to the management of Irregular Maritime Arrivals and providing visa and migration services.

Expenses associated with Irregular Maritime Arrivals are expected to increase in 2013-14 due to a forecast increase in arrivals and a corresponding rise in occupancy levels across the immigration processing network. The falling expenses from 2013-14 to 2016-17 is in line with the forecasting methodology for Irregular Maritime Arrivals (further detail on the estimation of Irregular Maritime Arrival costs is provided in Box 9: Irregular Maritime Arrival Costs).

Expenses for Visa and Migration Services are expected to increase in line with the estimated growth in visas issued.

Box 9: Irregular Maritime Arrival Costs

Estimates for Irregular Maritime Arrival (IMA) costs are heavily influenced by the occupancy level across the immigration processing network, which is determined by:

- the number of IMAs already in Australia awaiting resolution of their protection visa application;
- forecasts and projections of arrivals over the forward estimates;
- operational decisions as to how IMAs are placed throughout the network (that is onshore detention, community detention, offshore detention or on a bridging visa); and
- the length of time taken to resolve asylum claims.

The methodology for forecasting the number of IMAs involves:

(a) forecasting arrivals for the current financial year, the Budget year and the first forward year informed by advice from Australia's national security community; and

(b) projections of arrivals for the second and third forward year derived using a technical assumption that is based on a medium-term (10 year rolling average) arrival rate.

The methodology assumes arrivals phase down from the forecast arrival rate to the projected rate over a 12 month period commencing in the first forward year (2014-15).

Under the **other economic affairs nec** sub-function, total expenses are estimated to decrease by 1.2 per cent in real terms between 2012-13 and 2013-14 and by 8.0 per cent in real terms between 2013-14 and 2016-17. The decrease in expenses in 2015-16 and 2016-17 is primarily due to final payments being made under the Green Car Innovation Fund and the reprofiling of funding in the Clean Technology Innovation program, both of which are within the Innovative Industry program.

Table 16.2: Trends in major components of the other economic affairs nec sub-function expenses

	Estimates			Projections	
	2012-13	2013-14	2014-15	2015-16	2016-17
	$m	$m	$m	$m	$m
Innovative industry	307	295	315	288	264
Trade, education and investment development	189	186	186	186	188
Export market development grants scheme	125	125	125	125	125
Operating costs for:					
Department of Industry, Innovation, Science, Research and Tertiary Education	464	507	492	491	482
Australian Securities and Investments Commission	416	409	393	384	376
Bureau of Meteorology	344	353	349	354	368
IP Australia	170	179	183	190	194
Australian Competition and Consumer Commission	167	122	120	119	120
Other	155	183	199	205	216
Total	**2,337**	**2,359**	**2,362**	**2,342**	**2,333**

Other purposes

The other purposes function includes expenses incurred in the servicing of public debt interest, and assistance to state, territory and local governments. This function also includes items classified to natural disaster relief, the Contingency Reserve (see Appendix B for a detailed description), and expenses related to the nominal interest on unfunded liabilities for government superannuation benefits.

Table 17: Summary of expenses — other purposes

	Estimates			Projections	
	2012-13	2013-14	2014-15	2015-16	2016-17
	$m	$m	$m	$m	$m
Public debt interest	12,209	12,456	12,733	12,902	12,891
Interest on Commonwealth Government's behalf	12,209	12,456	12,733	12,902	12,891
Nominal superannuation interest	6,778	8,462	8,773	9,093	9,423
General purpose inter-government transactions	51,160	52,397	56,171	59,248	62,222
General revenue assistance - States and Territories	48,935	51,234	53,804	56,778	59,647
Local government assistance	2,225	1,164	2,367	2,470	2,575
Natural disaster relief(a)	1,894	147	97	22	0
Contingency reserve	-1,301	98	2,166	3,873	7,850
Total other purposes	**70,741**	**73,560**	**79,940**	**85,139**	**92,385**

(a) Amounts for the Natural Disaster Relief and Recovery Arrangements (NDRRA) reflect expenses being recorded in the year in which the disaster occurs rather than when payments are made to State or Territory Governments in relation to Commonwealth financial obligations under the NDRRA.

Total expenses under the other purposes function are estimated to increase by 1.8 per cent in real terms from 2012-13 to 2013-14, and by 16.1 per cent over the period 2013-14 to 2016-17. The increase in expenses over the forward estimates under the other purposes function is primarily driven by **general revenue assistance** paid to State and Territory governments, nearly all of which comprise payments of GST entitlements provided on an 'untied' basis. Payments to state and territory governments tied to specific purposes are reported under the relevant sections in this statement. Further information on general revenue assistance to the states and territories can be found in Budget Paper No. 3, *Australia's Federal Relations 2013-14*. The increase in expenses under the **public debt interest** sub-function in 2013-14 and over the forward years is due to the increased issuance of Commonwealth Government Securities. Expenses under the **nominal superannuation interest** sub-function are projected to increase over time, reflecting the growth in the Commonwealth's superannuation liability. The Future Fund was established to assist in meeting the cost of this liability, and further information on the Future Fund can be found in Statement 7 of Budget Paper No. 1.

Expenses in the **local government assistance** sub-function predominantly relate to financial assistance grants made to the States and Territories and consist of a general purpose component and an identified local road component, both of which are untied, allowing councils to direct the grants to local priorities. Expenses are higher in 2012-13 but reduce in 2013-14 reflecting the decision in the 2013-14 Budget to pay the first two instalments of the expected 2013-14 grants in 2012-13. Expenses are estimated to increase in 2014-15 as the timing of payments reverts to four quarterly instalments. Further small real increases in funding across the forward estimates are due to forecast population increases and changes in the Consumer Price Index (local government funding assistance provided by the Commonwealth is linked to population and inflation). Further information on Commonwealth government assistance to local governments can be found in Budget Paper No.3, *Australia's Federal Relations 2013-14*.

The expenses under the **natural disaster relief** sub-function relate mainly to the major natural disasters that occurred in the summer of 2012-13. The Australian Government provides financial support for affected States and Territories under the Natural Disaster Relief and Recovery Arrangements. The profile over the forward estimates reflects the requirement under accounting standards to recognise the majority of expenses for a disaster in the year in which it occurs.

The increase in expenses in the **contingency reserve** sub-function from 2013-14 is largely due to the conservative bias allowance (CBA). The CBA is a mechanism used to improve the accuracy of the forward estimates by anticipating the tendency for the estimates of existing policy to be revised upwards through time. The allowance is progressively unwound at each MYEFO and budget until it is completely removed for the budget year. This regular drawing down of the CBA reflects the fact that the tendency for underestimating payments diminishes as the forecast year gets closer. The Contingency Reserve is discussed in more detail at Appendix B.

General government net capital investment

Net capital investment is broadly defined as the sale and acquisition of non-financial assets less depreciation expenses. It provides a measure of the overall growth in capital assets (including buildings and infrastructure, specialist military equipment, and computer software) after taking into account depreciation and amortisation as previously acquired assets age.

Australian Government general government sector net capital investment is expected to be $2.9 billion in 2013-14, $4.2 billion higher than in 2012-13. The negative investment in 2012-13 is largely due to proceeds from the renewal of the telecommunications carriers' 15 year licences for 800MHz and 1800MHz spectrum, and proceeds from the auction of the 700 MHz and 2.5GHz spectrum. Details of movements are further explained in the following section.

Table 18: Estimates of total net capital investment

	MYEFO	Revised	Estimates		Projections	
	2012-13	2012-13	2013-14	2014-15	2015-16	2016-17
Total net capital investment ($m)	**-2,517**	**-1,212**	**2,945**	**2,204**	**1,126**	**3,003**
Per cent of GDP	-0.2	-0.1	0.2	0.1	0.1	0.2

Reconciliation of net capital investment since the 2012-13 Budget

A reconciliation of the net capital investment estimates, showing the effect of policy decisions and parameter and other variations since the 2012-13 Budget, is provided in Table 19.

Table 19: Reconciliation of net capital investment estimates

	Estimates			Projections
	2012-13	2013-14	2014-15	2015-16
	$m	$m	$m	$m
2012-13 Budget net capital investment	**-2,701**	**1,048**	**1,361**	**1,059**
Changes from 2012-13 Budget to 2012-13 MYEFO				
Effect of policy decisions(a)	238	104	-120	-149
Effect of parameter and other variations	-53	-121	2	-46
Total variations	**185**	**-17**	**-118**	**-194**
2012-13 MYEFO net capital investment	**-2,517**	**1,032**	**1,244**	**865**
Changes from 2012-13 MYEFO to 2013-14 Budget				
Effect of policy decisions(a)	63	196	356	87
Effect of parameter and other variations	1,242	1,717	605	174
Total variations	**1,305**	**1,913**	**961**	**261**
2013-14 Budget net capital investment	**-1,212**	**2,945**	**2,204**	**1,126**

(a) Excludes secondary impacts on public debt interest of policy decisions and offsets from the Contingency Reserve for decisions taken.

Forecast net capital investment for 2013-14 has increased by $1.9 billion since the 2012-13 MYEFO. This increase is driven by the effect of parameter and other variations of $1.7 billion, and new policy decisions of $196 million.

The major parameter and other variations largely reflect the deferral of minor capital spending in a number of entities together with the acquisition of military equipment and the construction of Defence support facilities as outlined in the 2013 Defence White Paper.

A discussion of changes between the 2012-13 MYEFO and the 2013-14 Budget, shown in the table above, can be found in Statement 3. Further information on the capital measures since MYEFO can be found in Budget Paper No. 2, *Budget Measures 2013-14*.

Net capital investment estimates by function

Estimates for Australian Government general government sector net capital investment by function for the period 2012-13 to 2016-17 are provided in Table 20.

Table 20: Estimates of net capital investment by function

	Estimates			Projections	
	2012-13	2013-14	2014-15	2015-16	2016-17
	$m	$m	$m	$m	$m
General public services	350	816	543	133	-39
Defence	1,439	1,890	2,620	2,336	3,054
Public order and safety	130	107	59	27	-109
Education	17	8	3	3	-5
Health	45	8	-35	-45	-57
Social security and welfare	-33	-27	-29	-33	24
Housing and community amenities	17	-26	-112	-62	-60
Recreation and culture	45	34	61	10	1
Fuel and energy	-5	-1	-1	0	-1
Agriculture, forestry and fishing	123	107	177	250	301
Mining, manufacturing and construction	21	11	0	1	0
Transport and communication	-3,495	17	-22	-34	-3
Other economic affairs	141	159	-98	-88	-79
Other purposes	-6	-158	-962	-1,374	-23
Total net capital investment	**-1,212**	**2,945**	**2,204**	**1,126**	**3,003**

A significant component of the Government's net capital investment occurs in the defence function, primarily the acquisition of military equipment and the construction of support facilities as announced in the 2013 Defence White Paper. Major factors contributing to changes in net capital investment, expected to occur in the following functions, include:

- **general public services —** a number of factors contribute to the pattern of net capital investment in this function, including additional capital funding provided in the 2013-14 Budget to the Department of Foreign Affairs and Trade to upgrade the International Communications Network and construction of a number of overseas facilities, investment by the ATO in 2013-14 on computer software to implement various government decisions, and increased investment in 2013-14 and 2014-15 associated with the CSIRO Property Strategy;

- **defence —** the purchase of 12 new-build EA-18G Growler aircraft, the introduction of the fifth-generation F-35A Joint Strike Fighter aircraft, and the replacement of Australia's Armidale Class Patrol Boats;

- **public order and safety —** the more significant investments include the fit out of office accommodation for the Royal Commission into Institutional Responses to Child Sexual Abuse in 2012-13 and 2013-14 and the replacement of Bay Class vessels by the Australian Customs and Border Protection Service over four years from 2012-13;

- **agriculture, forestry and fishing** —the increasing trend from 2013-14 over the forward estimates is largely due to investment under the *Water for the Future* package, to address water over-allocation in the Murray-Darling Basin;

- **transport and communication —** the negative investment in 2012-13 is due to the renewal of the telecommunications carriers' 15 year licences for 800MHz and 1800MHz spectrum ($1.5 billion) and the proceeds from the auction of the 700MHz and 2.5GHz spectrum by the Australian Communications and Media Authority (ACMA). The auction was conducted by ACMA in April and May 2013 and resulted in revenue of nearly $2 billion. All of the 2.5GHz spectrum available for sale was sold and it is the Government's intention that unsold 700MHz spectrum will be returned to the market for sale at a later date;

- **other economic affairs —** capital investment in 2012-13 and 2013-14 is largely for facilities to process asylum seekers as part of the Government's response to the *Report of the Expert Panel on Asylum Seekers*. This activity includes constructing regional processing centres in Nauru and Manus Island, Papua New Guinea and the upgrading of existing onshore immigration detention; and

- **other purposes —** the negative investments in this function are largely due to the Government's intention to sell the remaining 700MHz spectrum and the renewal of the telecommunications carrier's 15 year licences for 2.1GHz spectrum.

Table 21 reports the acquisition of non-financial assets by function before taking into account depreciation or amortisation.

Table 21: Australian Government general government sector purchases of non-financial assets by function

	Estimates			Projections	
	2012-13	2013-14	2014-15	2015-16	2016-17
	$m	$m	$m	$m	$m
General public services	445	1,479	786	1,905	746
Defence	4,920	5,160	6,095	6,066	6,952
Public order and safety	439	432	399	390	241
Education	38	27	17	18	9
Health	103	95	69	62	56
Social security and welfare	277	274	272	294	374
Housing and community amenities	160	159	120	110	51
Recreation and culture	326	303	294	454	303
Fuel and energy	-4	1	1	1	0
Agriculture, forestry and fishing	150	131	202	275	327
Mining, manufacturing and construction	29	19	8	8	5
Transport and communication	77	82	41	27	58
Other economic affairs	574	598	315	318	314
Other purposes	-6	-5	-5	-20	-23
General government purchases of non-financial assets	**7,528**	**8,755**	**8,613**	**9,908**	**9,411**

Trends in Australian Government staffing

Trends in the estimated annual average staffing level (ASL)[1] for all agencies in the general government sector are reported in Table 22 below. The data provides a summary of people employed by the Australian Government, including all Defence Force personnel and those employed by Statutory Authorities.

Table 22: Estimates of average staff levels

2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
238,623	248,217	250,566	258,321	261,891	261,637	256,631	257,376

The ASL figures in Table 22 for 2012-13 and 2013-14 exclude contractors. In the 2012-13 Budget, the ASL figures have included contractors for the Department of Defence (Defence) and Defence Materiel Organisation (DMO). The Defence and DMO contractor numbers for 2012-13 and 2013-14 are reported in footnote (i) of **Appendix C** for comparison purposes.

The ASL for 2012-13 reported in the 2012-13 Budget papers excluding contractors was 258,027. The current estimate is 256,631 ASL in 2012-13. The 2013-14 Budget is expected to result in a small net increase in ASL of 746 in 2013-14 across the general government sector, or a reduction of 1,262 if the expected growth in military personnel and reserves are excluded.

Appendix C provides details of ASL at the portfolio and agency level.

1 ASL figures reflect the average number of employees receiving salary or wages over the financial year, with adjustments for casual and part-time staff, to show the average full time equivalent (FTE). ASL figures also include military and overseas personnel.

Appendix A: Expense by function and sub-function

Table A1: Estimates of expenses by function and sub-function

	Actuals		Estimates		Projections	
	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
	$m	$m	$m	$m	$m	$m
General public services						
Legislative and executive affairs	1,003	1,021	1,335	1,222	1,033	1,264
Financial and fiscal affairs	7,982	7,749	8,112	8,194	8,335	8,741
Foreign affairs and economic aid	5,878	5,896	6,752	7,010	7,650	8,860
General research	2,764	2,639	2,663	2,648	2,511	2,414
General services	1,432	683	695	704	728	748
Government superannuation benefits	4,094	7,567	3,466	3,460	3,499	3,510
Total general public services	**23,153**	**25,555**	**23,023**	**23,237**	**23,756**	**25,537**
Defence	**21,692**	**21,122**	**22,045**	**23,345**	**25,094**	**25,834**
Public order and safety						
Courts and legal services	829	899	1,007	981	980	896
Other public order and safety	3,170	3,129	3,264	3,151	3,108	3,152
Total public order and safety	**3,999**	**4,028**	**4,272**	**4,132**	**4,087**	**4,048**
Education						
Higher education	8,533	8,724	8,997	9,321	9,829	10,073
Vocational and other education	1,998	1,904	1,954	2,128	2,124	2,305
Schools	12,243	12,419	13,778	14,441	15,748	17,231
Non-government schools	*7,737*	*8,094*	*8,916*	*9,277*	*9,970*	*10,718*
Government schools	*4,505*	*4,326*	*4,861*	*5,164*	*5,778*	*6,513*
Student assistance	4,110	3,532	3,599	3,498	3,458	3,573
General administration	263	268	268	257	250	266
School education - specific funding	1,903	1,563	1,147	740	381	560
Total education	**29,050**	**28,411**	**29,742**	**30,386**	**31,790**	**34,007**
Health						
Medical services and benefits	25,081	25,307	25,552	27,430	28,918	30,548
Hospital services(a)	2,944	2,694	2,762	2,038	1,900	1,905
National Health Reform Payment	12,544	13,252	13,941	15,432	17,060	18,849
Pharmaceutical benefits and services	10,188	10,689	11,139	11,664	12,087	12,562
Aboriginal and Torres Strait Islander health	736	752	851	826	854	890
Health services	7,359	6,362	7,053	7,418	7,481	7,413
General administration	3,159	3,192	3,337	3,273	3,296	3,327
Total health	**62,012**	**62,249**	**64,636**	**68,081**	**71,597**	**75,493**
Social security and welfare						
Assistance to the aged	48,231	50,984	54,754	57,620	61,648	66,251
Assistance to veterans and dependants	7,090	7,046	7,006	6,880	6,795	6,635
Assistance to people with disabilities	23,016	23,873	25,479	27,208	29,156	32,396
Assistance to families with children	34,919	35,256	34,945	35,534	36,353	37,158

Table A1: Estimates of expenses by function and sub-function (continued)

	Actuals		Estimates		Projections	
	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
	$m	$m	$m	$m	$m	$m
Social security and welfare (continued)						
Assistance to the unemployed and the sick	7,448	8,559	9,550	10,559	9,830	9,859
Other welfare programs	992	1,663	1,637	1,649	1,687	1,763
Assistance for Indigenous Australians nec	1,162	1,145	1,043	939	928	1,053
General administration	3,889	3,861	3,731	3,631	3,513	3,365
Total social security and welfare	**126,747**	**132,388**	**138,145**	**144,021**	**149,911**	**158,479**
Housing and community amenities						
Housing	3,387	2,877	3,361	3,183	3,146	3,377
Urban and regional development	595	560	660	782	596	442
Environment protection	2,197	3,460	4,754	4,965	2,766	3,775
Total housing and community amenities	**6,180**	**6,898**	**8,775**	**8,930**	**6,508**	**7,594**
Recreation and culture						
Broadcasting	1,608	1,748	1,761	1,682	1,680	1,656
Arts and cultural heritage	1,221	1,118	1,179	1,164	1,095	1,154
Sport and recreation	523	375	388	363	317	322
National estate and parks	457	400	368	342	341	336
Total recreation and culture	**3,809**	**3,641**	**3,696**	**3,551**	**3,433**	**3,468**
Fuel and energy	**6,464**	**6,168**	**7,586**	**7,557**	**7,701**	**7,574**
Agriculture, forestry and fishing						
Wool industry	62	54	58	55	57	57
Grains industry	169	173	182	189	193	176
Dairy industry	51	53	54	54	56	57
Cattle, sheep and pig industry	170	173	180	182	182	184
Fishing, horticulture and other agriculture	228	242	252	250	248	244
General assistance not allocated to specific industries	24	28	30	29	29	34
Rural assistance	256	139	194	179	143	142
Natural resources development	1,327	1,052	998	1,083	1,420	1,093
General administration	667	690	708	688	720	716
Total agriculture, forestry and fishing	**2,953**	**2,605**	**2,654**	**2,709**	**3,047**	**2,702**
Mining, manufacturing and construction	**2,245**	**2,267**	**2,431**	**2,734**	**2,592**	**2,328**
Transport and communication						
Communication	861	589	582	561	500	500
Rail transport	1,045	1,032	1,425	1,406	1,396	457
Air transport	228	208	210	209	204	208
Road transport	6,341	2,529	3,501	3,190	2,660	2,863
Sea transport	290	319	342	353	366	381
Other transport and communication	364	326	393	836	880	992
Total transport and communication	**9,129**	**5,002**	**6,453**	**6,555**	**6,005**	**5,401**

Table A1: Estimates of expenses by function and sub-function (continued)

	Actuals	Estimates		Projections		
	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
	$m	$m	$m	$m	$m	$m
Other economic affairs						
Tourism and area promotion	177	181	189	187	169	174
Total labour and employment affairs	4,783	4,271	4,358	4,319	4,381	4,327
Vocational and industry training	*1,977*	*1,658*	*1,590*	*1,581*	*1,545*	*1,541*
Labour market assistance to job seekers and industry	*2,109*	*1,803*	*2,059*	*2,025*	*2,120*	*2,069*
Industrial relations	*698*	*809*	*708*	*712*	*716*	*717*
Immigration	2,740	3,575	4,376	3,617	3,461	3,065
Other economic affairs nec	2,354	2,337	2,359	2,362	2,342	2,333
Total other economic affairs	**10,054**	**10,365**	**11,283**	**10,485**	**10,354**	**9,899**
Other purposes						
Public debt interest	11,421	12,209	12,456	12,733	12,902	12,891
Interest on Commonwealth Government's behalf	*11,421*	*12,209*	*12,456*	*12,733*	*12,902*	*12,891*
Nominal superannuation interest	7,376	6,778	8,462	8,773	9,093	9,423
General purpose inter-government transactions	49,940	51,160	52,397	56,171	59,248	62,222
General revenue assistance - States and Territories	*47,149*	*48,935*	*51,234*	*53,804*	*56,778*	*59,647*
Local government assistance	*2,791*	*2,225*	*1,164*	*2,367*	*2,470*	*2,575*
Natural disaster relief(b)	1,516	1,894	147	97	22	0
Contingency reserve	0	-1,301	98	2,166	3,873	7,850
Total other purposes	**70,253**	**70,741**	**73,560**	**79,940**	**85,139**	**92,385**
Total expenses	**377,739**	**381,439**	**398,301**	**415,663**	**431,015**	**454,747**

(a) The hospital services sub-function includes payments from the Commonwealth to the States and Territories for specific hospital improvement initiatives and is in addition to hospital funding provided under the National Health Reform payment sub-function.

(b) Amounts for the Natural Disaster Relief and Recovery Arrangements (NDRRA) reflect expenses being recorded in the year in which the disaster occurs rather than when payments are made to State or Territory Governments in relation to Commonwealth financial obligations under the NDRRA.

APPENDIX B: THE CONTINGENCY RESERVE

The Contingency Reserve (part of the other purposes function) is an allowance, included in aggregate expenses, principally to reflect anticipated events that cannot be assigned to individual programs in the preparation of the Australian Government budget estimates. The Contingency Reserve is used to ensure that the estimates are based on the best information available at the time of the Budget. It is not a general policy reserve. While the Reserve is designed to ensure that aggregate estimates are as close as possible to expected outcomes, it is not appropriated. Allowances that are included in the Reserve can only be drawn upon once they have been appropriated by Parliament. These allowances are removed from the Reserve and allocated to specific agencies for appropriation and for outcome reporting closer to the time when the associated events eventuate.

The Contingency Reserve contains an allowance for the tendency for estimates of expenses for existing Government policy to be revised upwards in the forward years, known as the conservative bias allowance. Since the 2012-13 MYEFO, the allowance has been drawn down to zero in the Budget year (2013-14), to ½ of a percentage point of total general government sector expenses (excluding GST payments to the States) in the first forward year (2014-15), to 1 per cent of expenses in the second forward year (2015-16) and a 2 per cent provision has been included in the third forward year (2016-17). The drawdown of the allowance reduced expenses by $865 million in 2013-14, $879 million in 2014-15 and $1.9 billion in 2015-16. The drawdown of the conservative bias allowance is consistent with long standing practice and does not represent a saving or offset to Government spending measures.

The Contingency Reserve also makes allowance in 2013-14 and the forward years for anticipated events, including the following:

- a provision for underspends in the current financial year reflecting the tendency for budgeted expenses for some agencies or functions not to be met;
- commercial-in-confidence and national security-in-confidence items that cannot be disclosed separately, and programs that are yet to be renegotiated with State and Territory governments;
- decisions made too late for inclusion against individual agency estimates;
- the effect on the budget and forward estimates of economic parameter revisions received late in the process and hence not able to be allocated to individual agencies or functions; and
- a provision for events and pressures that are reasonably expected to affect the budget estimates.

APPENDIX C: ADDITIONAL AGENCY STATISTICS

Table C1: Departmental expenses by agency

	Estimates			Projections	
	2012-13	2013-14	2014-15	2015-16	2016-17
	$m	$m	$m	$m	$m
Agriculture, Fisheries and Forestry					
Department of Agriculture, Fisheries and Forestry	715	727	705	735	730
Grains Research and Development Corporation	177	190	191	194	176
Total	**892**	**918**	**896**	**929**	**906**
Attorney-General's					
Attorney-General's Department	266	287	259	253	242
Australian Customs and Border Protection Service	1,131	1,136	1,062	1,087	1,108
Australian Federal Police	1,353	1,341	1,345	1,326	1,343
Australian Security Intelligence Organisation	420	457	439	447	465
Family Court and Federal Circuit Court	0	200	197	198	199
Family Court of Australia	127	0	0	0	0
High Court of Australia	20	20	21	21	21
Total	**3,317**	**3,442**	**3,323**	**3,332**	**3,378**
Broadband, Communications and the Digital Economy					
Australian Broadcasting Corporation	1,184	1,216	1,234	1,263	1,251
Australian Communications and Media Authority	110	104	98	96	98
Department of Broadband, Communications and the Digital Economy	124	116	94	94	95
Special Broadcasting Service Corporation	334	377	372	373	370
Total	**1,751**	**1,813**	**1,799**	**1,825**	**1,815**
Climate Change and Energy Efficiency					
Department of Climate Change and Energy Efficiency(a)	105	0	0	0	0
Total	**105**	**0**	**0**	**0**	**0**
Defence					
Australian War Memorial	55	68	59	60	60
Defence Housing Australia	937	1,030	1,057	1,075	1,136
Defence Materiel Organisation	8,764	9,659	11,742	12,825	13,375
Department of Defence	24,944	26,074	27,426	29,373	30,165
Department of Veterans' Affairs	356	360	357	356	362
Total	**35,057**	**37,191**	**40,641**	**43,690**	**45,097**
Education, Employment and Workplace Relations					
Comcare	449	449	456	472	490
Department of Education, Employment and Workplace Relations	689	687	667	662	673
Total	**1,138**	**1,136**	**1,123**	**1,134**	**1,163**

Table C1: Departmental expenses by agency (continued)

	Estimates			Projections	
	2012-13	2013-14	2014-15	2015-16	2016-17
	$m	$m	$m	$m	$m
Families, Housing, Community Services and Indigenous Affairs					
Department of Families, Housing, Community Services and Indigenous Affairs	635	816	539	535	536
Indigenous Business Australia	164	183	187	195	199
National Disability Insurance Scheme Launch Transition Agency	0	0	309	598	1,890
Total	**799**	**999**	**1,035**	**1,328**	**2,626**
Finance and Deregulation					
Australian Electoral Commission	141	301	141	145	269
Department of Finance and Deregulation	497	529	506	507	519
Future Fund Management Agency	45	47	51	55	58
Total	**682**	**878**	**699**	**707**	**846**
Foreign Affairs and Trade					
AusAID	333	375	354	361	366
Australian Trade Commission	201	199	199	199	201
Department of Foreign Affairs and Trade	1,048	1,105	1,091	1,104	1,112
Total	**1,582**	**1,679**	**1,643**	**1,664**	**1,679**
Health and Ageing					
Department of Health and Ageing	806	821	791	793	798
National Blood Authority	11	10	10	10	10
National Health and Medical Research Council	46	47	47	46	47
Total	**864**	**878**	**848**	**849**	**855**
Human Services					
Department of Human Services	4,515	4,398	4,287	4,179	4,233
Total	**4,515**	**4,398**	**4,287**	**4,179**	**4,233**
Immigration and Citizenship					
Department of Immigration and Citizenship	1,556	1,580	1,450	1,494	1,547
Total	**1,556**	**1,580**	**1,450**	**1,494**	**1,547**
Industry, Innovation, Climate Change, Science, Research and Tertiary Education					
Australian Nuclear Science and Technology Organisation	268	295	290	294	275
Australian Research Council	22	23	23	24	25
Clean Energy Regulator	89	90	90	91	81
Commonwealth Scientific and Industrial Research Organisation	1,265	1,300	1,335	1,374	1,363
Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education(a)	633	675	656	653	641
Total	**2,277**	**2,383**	**2,393**	**2,435**	**2,385**
Infrastructure and Transport					
Department of Infrastructure and Transport	207	212	206	215	200
Total	**207**	**212**	**206**	**215**	**200**

Table C1: Departmental expenses by agency (continued)

	Estimates			Projections	
	2012-13	2013-14	2014-15	2015-16	2016-17
	$m	$m	$m	$m	$m
Parliament					
Department of Parliamentary Services	137	129	126	127	125
Total	**137**	**129**	**126**	**127**	**125**
Prime Minister and Cabinet					
Department of the Prime Minister and Cabinet	159	205	329	117	115
Total	**159**	**205**	**329**	**117**	**115**
Regional Australia, Local Government, Arts and Sport					
Australian Sports Commission	312	312	279	263	265
Department of Regional Australia, Local Government, Arts and Sport	110	96	94	88	88
National Archives of Australia	72	74	75	77	92
National Capital Authority	19	19	20	20	20
National Gallery of Australia	41	42	42	43	44
National Library of Australia	77	77	77	78	75
National Museum of Australia	47	47	47	48	48
Total	**678**	**667**	**634**	**616**	**633**
Resources, Energy and Tourism					
Australian Renewable Energy Agency	129	509	367	260	150
Department of Resources, Energy and Tourism	129	146	111	100	97
Total	**258**	**655**	**477**	**359**	**246**
Sustainability, Environment, Water, Population and Communities					
Bureau of Meteorology	344	353	349	354	368
Department of Sustainability, Environment, Water, Population and Communities	600	576	520	516	495
Total	**944**	**929**	**869**	**870**	**864**
Treasury					
Australian Bureau of Statistics	424	389	392	452	585
Australian Office of Financial Management	11	13	13	13	13
Australian Securities and Investments Commission	416	409	393	384	376
Australian Taxation Office	3,497	3,600	3,585	3,533	3,568
Clean Energy Finance Corporation(b)	8	338	345	347	348
Department of the Treasury	197	178	180	163	160
Total	**4,553**	**4,928**	**4,909**	**4,891**	**5,050**
Small agencies	**5,243**	**5,189**	**5,131**	**5,121**	**5,097**
Whole of government and inter-agency amounts(c)	**-10,380**	**-11,550**	**-13,217**	**-14,614**	**-15,237**
AEIFRS expenses considered other economic flows(d)	**-1,232**	**-1,260**	**-1,303**	**-1,357**	**-1,416**
Total departmental expenses	**55,103**	**57,399**	**58,298**	**59,912**	**62,207**

(a) On 26 March 2013, the Department of Climate Change and Energy Efficiency was abolished with climate change functions transferred to the new Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education.

(b) Most of the Clean Energy Finance Corporation estimated expenses are due to concessional loans.

(c) Estimates of inter-agency transactions are included in the whole of government and inter-agency amounts. The entry for each portfolio does not include eliminations for inter-agency transactions within that portfolio.

(d) Agency estimates are reported on an AEIFRS basis. AEIFRS expenses considered other economic flows include net write-down and impairment of assets and fair value losses.

Table C2: Net capital investment by agency

	Estimates			Projections	
	2012-13	2013-14	2014-15	2015-16	2016-17
	$m	$m	$m	$m	$m
Agriculture, Fisheries and Forestry					
Department of Agriculture, Fisheries and Forestry	2	3	-2	-2	-3
Grains Research and Development Corporation	0	1	0	0	0
Total	**2**	**4**	**-2**	**-2**	**-3**
Attorney-General's					
Attorney-General's Department	10	0	-23	-21	-4
Australian Customs and Border Protection Service	27	23	56	31	-51
Australian Federal Police	13	61	39	-15	-14
Australian Security Intelligence Organisation	47	18	-6	32	-31
Family Court and Federal Circuit Court	0	47	-2	-1	-1
Family Court of Australia	0	-41	0	0	0
High Court of Australia	1	4	1	0	-1
Total	**97**	**112**	**65**	**25**	**-102**
Broadband, Communications and the Digital Economy					
Australian Broadcasting Corporation	10	-3	61	24	-19
Australian Communications and Media Authority	6	13	2	4	-1
Department of Broadband, Communications and the Digital Economy	-18	-14	-14	-15	-14
Special Broadcasting Service Corporation	16	-5	-2	3	3
Total	**14**	**-9**	**47**	**15**	**-31**
Climate Change and Energy Efficiency					
Department of Climate Change and Energy Efficiency(a)	-44	0	0	0	0
Total	**-44**	**0**	**0**	**0**	**0**
Defence					
Australian War Memorial	0	20	-1	-4	-1
Defence Housing Australia	24	-5	-48	-2	-14
Defence Materiel Organisation	0	0	0	0	0
Department of Defence	748	1,182	1,911	2,205	2,297
Department of Veterans' Affairs	-1	1	-11	-13	-13
Total	**772**	**1,199**	**1,850**	**2,187**	**2,269**
Education, Employment and Workplace Relations					
Comcare	11	2	3	3	4
Department of Education, Employment and Workplace Relations	-17	-14	-12	-12	-13
Total	**-6**	**-11**	**-9**	**-9**	**-10**

Table C2: Net capital investment by agency (continued)

	Estimates			Projections	
	2012-13	2013-14	2014-15	2015-16	2016-17
	$m	$m	$m	$m	$m
Families, Housing, Community Services and Indigenous Affairs					
Department of Families, Housing, Community Services and Indigenous Affairs	13	15	-62	-21	-14
Indigenous Business Australia	12	2	-5	-5	-5
National Disability Insurance Scheme Launch Transition Agency	0	0	66	47	111
Total	**25**	**17**	**0**	**21**	**93**
Finance and Deregulation					
Australian Electoral Commission	5	1	0	5	-1
Department of Finance and Deregulation	137	311	347	-617	34
Future Fund Management Agency	2	-2	-2	-1	0
Total	**144**	**310**	**345**	**-613**	**34**
Foreign Affairs and Trade					
AusAID	6	7	-5	-6	-5
Australian Trade Commission	0	-2	0	0	0
Department of Foreign Affairs and Trade	57	306	241	266	10
Total	**63**	**311**	**235**	**261**	**4**
Health and Ageing					
Department of Health and Ageing	4	4	-55	-43	-59
National Blood Authority	1	-1	0	0	0
National Health and Medical Research Council	0	-2	-2	-2	-2
Total	**5**	**1**	**-57**	**-45**	**-61**
Human Services					
Department of Human Services	-172	-77	-27	-47	-65
Total	**-172**	**-77**	**-27**	**-47**	**-65**
Immigration and Citizenship					
Department of Immigration and Citizenship	191	207	-26	154	-21
Total	**191**	**207**	**-26**	**154**	**-21**
Industry, Innovation, Climate Change, Science, Research and Tertiary Education					
Australian Nuclear Science and Technology Organisation	47	21	-3	-6	-14
Australian Research Council	0	0	0	0	-1
Clean Energy Regulator	14	-3	-10	-12	-2
Commonwealth Scientific and Industrial Research Organisation	53	98	31	-100	-15
Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education(a)	36	-6	-20	-17	-17
Total	**149**	**110**	**-1**	**-135**	**-49**
Infrastructure and Transport					
Department of Infrastructure and Transport	-14	-5	-6	-6	1
Total	**-14**	**-5**	**-6**	**-6**	**1**

Table C2: Net capital investment by agency (continued)

	Estimates			Projections	
	2012-13	2013-14	2014-15	2015-16	2016-17
	$m	$m	$m	$m	$m
Parliament					
Department of Parliamentary Services	-28	-17	-9	-8	-5
Total	**-28**	**-17**	**-9**	**-8**	**-5**
Prime Minister and Cabinet					
Department of the Prime Minister and Cabinet	0	2	-7	-6	-2
Total	**0**	**2**	**-7**	**-6**	**-2**
Regional Australia, Local Government, Arts and Sport					
Australian Sports Commission	-8	-7	-17	-21	6
Department of Regional Australia, Local Government, Arts and Sport	-35	-113	-33	-31	-27
National Archives of Australia	1	2	2	2	2
National Capital Authority	-8	1	-1	-4	-4
National Gallery of Australia	13	16	17	17	18
National Library of Australia	5	2	6	3	-2
National Museum of Australia	7	0	3	4	2
Total	**-24**	**-97**	**-23**	**-31**	**-4**
Resources, Energy and Tourism					
Australian Renewable Energy Agency	0	0	0	0	0
Department of Resources, Energy and Tourism	14	-3	-3	0	1
Total	**14**	**-3**	**-3**	**0**	**1**
Sustainability, Environment, Water, Population and Communities					
Bureau of Meteorology	-9	-8	-17	-18	-19
Department of Sustainability, Environment, Water, Population and Communities	106	89	165	236	288
Total	**97**	**81**	**148**	**218**	**269**
Treasury					
Australian Bureau of Statistics	-12	-3	-4	2	-12
Australian Office of Financial Management	0	3	0	0	0
Australian Securities and Investments Commission	-24	-15	-21	-8	2
Australian Taxation Office	56	78	11	0	-1
Clean Energy Finance Corporation	1	0	0	0	0
Department of the Treasury	101	-153	-2	-2	-1
Total	**121**	**-91**	**-17**	**-7**	**-11**
Small agencies	**139**	**132**	**-52**	**-55**	**-36**
Whole of government and inter-agency amounts(b)	**30**	**-24**	**-25**	**-42**	**-48**
Adjustments to AEIFRS movements in non-financial assets(c)	**-2,788**	**793**	**-223**	**-748**	**780**
Total net capital investment	**-1,212**	**2,945**	**2,204**	**1,126**	**3,003**

(a) On 26 March 2013, the Department of Climate Change and Energy Efficiency was abolished with climate change functions transferred to the new Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education.

(b) Estimates of inter-agency transactions are included in the whole of government and inter-agency amounts. The entry for each portfolio does not include eliminations for inter-agency transactions within that portfolio.

(c) Agency estimates are reported on an AEIFRS basis. AEIFRS movements in non-financial assets considered other economic flows include net write-down and impairment of non-financial assets and assets recognised for the first time. They also include Contingency Reserve movements in non-financial assets.

Table C3: Estimates of average staffing level (ASL) of agencies in the Australian Government general government sector[(a)]

	Average staffing levels #		
	2012-13	2013-14	Change
Agriculture, Fisheries and Forestry			
Department of Agriculture, Fisheries and Forestry(b)	4,488	4,258	-230
Australian Fisheries Management Authority	189	189	0
Australian Pesticides and Veterinary Medicines Authority	176	183	7
Cotton Research and Development Corporation	11	14	3
Fisheries Research and Development Corporation	12	13	0
Grains Research and Development Corporation	57	61	4
Grape and Wine Research and Development Corporation	11	11	0
Rural Industries Research and Development Corporation	27	27	0
Sugar Research and Development Corporation	8	8	0
Wine Australia Corporation	39	49	10
Total	**5,018**	**4,812**	**-206**
Attorney-General's			
Attorney-General's Department(c)	1,332	1,461	129
Administrative Appeals Tribunal	162	170	8
Australian Commission for Law Enforcement Integrity	29	34	5
Australian Crime Commission(d)	558	504	-54
Australian Customs and Border Protection Service(e)	5,120	5,000	-120
Australian Federal Police	6,359	6,416	57
Australian Human Rights Commission	134	125	-9
Australian Institute of Criminology	48	47	-1
Australian Law Reform Commission	15	16	0
Australian Security Intelligence Organisation	1,738	1,778	40
Australian Transaction Reports and Analysis Centre	292	274	-18
Crimtrac Agency	221	228	7
Family Court and Federal Circuit Court(f)	572	789	217
Federal Circuit Court of Australia(f)	234	0	-234
Federal Court of Australia	419	425	6
High Court of Australia	81	82	1
Insolvency and Trustee Services Australia	420	420	0
Office of Parliamentary Counsel	96	113	17
Office of the Australian Information Commissioner	85	80	-5
Office of the Director of Public Prosecutions(g)	500	423	-77
Total	**18,415**	**18,385**	**-30**
Broadband, Communications and the Digital Economy			
Department of Broadband, Communications and the Digital Economy	634	585	-49
Australian Broadcasting Corporation	4,542	4,619	77
Australian Communications and Media Authority	533	523	-10
Special Broadcasting Service Corporation	971	1,058	87
Telecommunications Universal Service Management Agency	15	17	2
Total	**6,695**	**6,802**	**107**
Climate Change and Energy Efficiency			
Department of Climate Change and Energy Efficiency(h)	483	0	-483
Total	**483**	**0**	**-483**

Table C3: Estimates of average staffing level (ASL) of agencies in the Australian Government general government sector[a] (continued)

	Average staffing levels #		
	2012-13	2013-14	Change
Defence			
Department of Defence – Civilian(i)(j)	15,794	15,547	-247
Australian War Memorial	312	339	27
Defence Housing Australia	589	614	25
Defence Materiel Organisation(i)(j)	5,750	5,670	-80
Department of Defence – Military(k)	56,711	58,235	1,524
Department of Defence – Reserves(l)	19,967	20,450	483
Department of Veterans' Affairs	1,914	1,924	10
Total	**101,037**	**102,779**	**1,742**
Departments of the Parliament			
Department of Parliamentary Services	704	705	1
Department of the House of Representatives	161	158	-3
Department of the Senate	153	155	2
Parliamentary Budget Office	14	39	25
Total	**1,032**	**1,057**	**25**
Education, Employment and Workplace Relations			
Department of Education, Employment and Workplace Relations	3,790	3,740	-50
Australian Curriculum Assessment and Reporting Authority	115	118	3
Australian Institute for Teaching and School Leadership Limited	58	68	10
Comcare	660	637	-23
Fair Work Commission	321	353	32
Office of the Fair Work Building Industry Inspectorate	145	100	-45
Office of the Fair Work Ombudsman	723	693	-30
Safe Work Australia	104	104	0
Total	**5,916**	**5,813**	**-103**
Families, Housing, Community Services and Indigenous Affairs			
Department of Families, Housing, Community Services and Indigenous Affairs(m)	2,920	3,278	358
Aboriginal Hostels Limited	448	445	-3
Anindilyakwa Land Council	46	48	2
Australian Institute of Family Studies	74	81	7
Central Land Council	227	231	4
Indigenous Business Australia	212	227	15
Indigenous Land Corporation	265	265	0
Northern Land Council	329	329	0
Outback Stores Pty Ltd	140	150	10
Tiwi Land Council	10	11	1
Torres Strait Regional Authority	128	139	11
Workplace Gender Equality Agency	35	33	-2
Wreck Bay Aboriginal Community Council	32	32	0
Total	**4,866**	**5,269**	**403**
Finance and Deregulation			
Department of Finance and Deregulation	1,528	1,468	-60
Australian Electoral Commission	869	878	9
Commonwealth Superannuation Corporation	64	72	8
ComSuper	443	445	2
Future Fund Management Agency	91	104	13
Total	**2,995**	**2,967**	**-28**

Table C3: Estimates of average staffing level (ASL) of agencies in the Australian Government general government sector[(a)] (continued)

	Average staffing levels #		
	2012-13	2013-14	Change
Foreign Affairs and Trade			
Department of Foreign Affairs and Trade	3,924	3,981	57
AusAID (Australian Agency for International Development)	1,944	1,982	38
Australian Centre for International Agriculture Research	69	73	4
Australian Secret Intelligence Service	*	*	*
Australian Trade Commission (Austrade)	960	930	-30
Export Finance Insurance Corporation - National Interest Account	7	7	0
Total	**6,904**	**6,973**	**69**
Health and Ageing			
Department of Health and Ageing(n)	4,706	4,567	-139
Aged Care Standards and Accreditation Agency Ltd	210	220	10
Australian Commission on Safety and Quality in Health Care	55	58	3
Australian Institute of Health and Welfare	322	315	-7
Australian National Preventive Health Agency	44	40	-4
Australian Organ and Tissue Donation and Transplantation Authority	28	28	0
Australian Radiation Protection and Nuclear Safety Agency	145	153	8
Cancer Australia	64	72	8
Food Standards Australia and New Zealand	120	118	-2
General Practice Education and Training Ltd	56	61	5
Health Workforce Australia	132	140	8
Independent Hospital Pricing Authority	49	59	11
National Blood Authority	49	53	4
National Health and Medical Research Council	215	217	2
National Health Funding Body	21	21	0
National Health Performance Authority	44	53	9
Private Health Insurance Administration Council	34	35	1
Private Health Insurance Ombudsman	12	12	0
Professional Services Review	23	23	0
Total	**6,329**	**6,245**	**-84**
Human Services			
Department of Human Services(o)	32,048	30,707	-1,341
Total	**32,048**	**30,707**	**-1,341**
Immigration and Citizenship			
Department of Immigration and Citizenship	8,997	9,080	83
Migration Review Tribunal and Refugee Review Tribunal	365	420	55
Total	**9,362**	**9,500**	**138**
Infrastructure and Transport			
Department of Infrastructure and Transport	1,000	994	-6
Australian Maritime Safety Authority	344	358	14
Australian Transport Safety Bureau	122	118	-4
Civil Aviation Safety Authority	809	855	46
National Transport Commission	46	45	-1
Total	**2,321**	**2,370**	**49**

Table C3: Estimates of average staffing level (ASL) of agencies in the Australian Government general government sector[(a)] (continued)

	Average staffing levels #		
	2012-13	2013-14	Change
Industry, Innovation, Climate Change, Science, Research and Tertiary Education			
Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education(p)	3,449	3,630	181
Australian Institute of Aboriginal and Torres Strait Islander Studies	130	118	-12
Australian Institute of Marine Science	202	202	0
Australian Nuclear Science and Technology Organisation	1,224	1,276	52
Australian Research Council	115	120	5
Australian Skills Quality Authority	193	211	18
Clean Energy Regulator	349	360	11
Climate Change Authority	24	35	12
Commonwealth Scientific and Industrial Research Organisation(q)	5,715	5,550	-165
IP Australia	1,049	1,067	18
Low Carbon Australia Limited(r)	24	0	-24
Tertiary Education Quality and Standards Agency	93	99	6
Total	**12,567**	**12,668**	**102**
Prime Minister and Cabinet			
Department of the Prime Minister and Cabinet(s)	698	771	73
Australian National Audit Office	348	348	0
Australian Public Service Commission	266	254	-12
National Australia Day Council Limited	12	11	-1
National Mental Health Commission	10	13	3
Office of National Assessments	144	148	4
Office of the Commonwealth Ombudsman	139	136	-3
Office of the Inspector-General of Intelligence and Security	13	12	-1
Office of the Official Secretary to the Governor-General	86	86	0
Total	**1,716**	**1,779**	**63**
Regional Australia, Local Government, Arts and Sport			
Department of Regional Australia, Local Government, Arts and Sport(t)	552	482	-70
Australia Business Arts Foundation Limited	25	33	8
Australia Council	120	124	4
Australian Film, Television and Radio School	150	150	0
Australian National Maritime Museum	115	115	0
Australian Sports Anti-Doping Authority	73	74	1
Australian Sports Commission (includes Australian Sports Foundation Limited)	718	696	-22
Bundanon Trust	17	19	1
National Archives of Australia	429	429	0
National Capital Authority	52	56	4
National Film & Sound Archive	213	211	-2
National Gallery of Australia	245	245	0
National Library of Australia	434	434	0
National Museum of Australia	221	221	0
National Portrait Gallery of Australia(t)	0	59	59
Old Parliament House	72	72	0
Screen Australia	110	112	2
Total	**3,546**	**3,531**	**-15**

Table C3: Estimates of average staffing level (ASL) of agencies in the Australian Government general government sector[(a)] (continued)

	Average staffing levels #		
	2012-13	2013-14	Change
Resources, Energy and Tourism			
Department of Resources, Energy and Tourism(u)	516	655	139
Australian Renewable Energy Agency	2	2	0
Geoscience Australia	700	720	20
National Offshore Petroleum Safety and Environmental Management Authority	105	121	16
Tourism Australia	198	198	0
Total	**1,521**	**1,696**	**175**
Sustainability, Environment, Water, Population and Communities			
Department of Sustainability, Environment, Water, Population and Communities(v)	2,291	2,151	-140
Bureau of Meteorology	1,519	1,536	17
Director of National Parks	275	275	0
Great Barrier Reef Marine Park Authority	209	205	-4
Murray-Darling Basin Authority	300	295	-5
National Water Commission	40	40	0
Sydney Harbour Federation Trust	55	57	2
Total	**4,689**	**4,559**	**-130**
Treasury			
Department of the Treasury	937	886	-51
Australian Bureau of Statistics(w)	2,921	2,685	-236
Australian Competition and Consumer Commission	800	802	2
Australian Office of Financial Management	41	45	4
Australian Prudential Regulation Authority	609	609	0
Australian Securities and Investments Commission	1,830	1,834	4
Australian Taxation Office(x)	21,514	22,022	508
Clean Energy Finance Corporation(r)	11	50	39
Commonwealth Grants Commission	40	40	0
Corporations and Markets Advisory Committee	3	3	0
Inspector-General of Taxation	10	10	0
National Competition Council	11	12	1
Office of the Auditing and Assurance Standards Board	8	8	0
Office of the Australian Accounting Standards Board	22	24	2
Productivity Commission	198	193	-5
Royal Australian Mint	217	241	24
Total	**29,172**	**29,464**	**292**
TOTAL (for all general government sector agencies)	**256,631**	**257,376**	**746**

Any discrepancies in totals are due to rounding of partial ASL.
* Not disclosed
(a) This table includes estimates of ASL provided by general government sector agencies. ASL figures reflect the average number of employees receiving salary or wages over the financial year, with adjustments for casual and part time staff to show the full-time equivalent. It also includes uniformed staff and overseas personnel. The ASL figures exclude contractors. In the 2012-13 Budget, the ASL figures included contractors for the Department of Defence (Defence) and Defence Materiel Organisation (DMO). The Defence and DMO contractor numbers are reported in note (i) for comparison purposes.
(b) The projected decrease of 230 between 2012-13 and 2013-14 reflects alignment of staffing to operate within the allocated budget.
(c) Core ongoing ASL will decrease by 47, from 1,263 in 2012-13 to 1,216 in 2013-14. However the total ASL in 2013-14 will increase as a result of 93 ASL for the Royal Commission Into Institutional Responses to Child Sexual Abuse, 65 ASL for the Defence Abuse Response Task Force, and 18 ASL for special event programs (Asian Football Cup (5), Cricket World Cup (6), and G20 Security Arrangements (7)).

(d) The projected decrease of 54 between 2012-13 and 2013-14 reflects alignment of staffing to operate within the allocated budget.
(e) The projected decrease of 120 between 2012-13 and 2013-14 reflects alignment of staffing to operate within the allocated budget.
(f) Staff reductions in the Federal Circuit Court of Australia (formerly Federal Magistrates Court of Australia) and subsequent increases in the Family Court and Federal Circuit Court of Australia (formerly the Family Court of Australia) are a result of the merger of these entities. The 2012-13 ASL is presented under the former entities.
(g) The projected decrease of 77 between 2012-13 and 2013-14 reflects alignment of staffing to operate within the allocated budget.
(h) As a result of Machinery of Government changes, the Department of Climate Change and Energy Efficiency (DCCEE) ceased to exist on 26 March 2013. The ASL in 2012-13 is an estimate for the time DCCEE was in operation (1 July 2012 to 25 March 2013). The ASL for the remainder of the year and the full year impact for 2013-14 are included in the figures for the Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education, and the Department of Resources, Energy and Tourism. Also see (p) and (u).
(i) The ASL figures exclude contractors. Contractor numbers for Defence is 350 in 2012-13 and projected to be 445 in 2013-14, and DMO is 27 in 2012-13 and projected to be 48 in 2013-14.
(j) The combined decrease in projected ASL for Defence and DMO (excluding contractors) of 327 between 2012-13 and 2013-14 is primarily due to the second tranche of the reduction of 1,000 ASL over two years announced in the 2012-13 Budget.
(k) The projected increase of 1,524 between 2012-13 and 2013-14 reflects the increase to achieve the budgeted workforce in 2013-14 after a period of workforce shortfalls.
(l) The projected increase of 483 between 2012-13 and 2013-14 reflects planned increased usage of Reservists.
(m) The projected increase of 358 between 2012-13 and 2013-14 is largely attributable to DisabilityCare Australia measures.
(n) The projected decrease of 139 between 2012-13 and 2013-14 reflects alignment of staffing to operate within the allocated budget.
(o) The projected decrease of 1,341 between 2012-13 and 2013-14 reflects alignment of staffing to operate within the allocated budget and efficiencies achieved from the Service Delivery Reform as announced in the 2011-12 Budget.
(p) The projected increase of 181 between 2012-13 and 2013-14 includes the impact of the staff transferred from the former Department of Climate Change and Energy Efficiency (DCCEE) as a result of Machinery of Government changes on 25 March 2013. The ASL for 2012-13 includes only the part year impact (from 26 March 2013 to 30 June 2013) of the ASL that transferred from the former DCCEE (106 ASL). Also see (h).
(q) The projected decrease of 165 between 2012-13 and 2013-14 reflects alignment of staffing to operate within the allocated budget.
(r) The Clean Energy Finance Corporation (CEFC) was established in August 2012, under the Clean Energy Finance Corporation Act 2012. Low Carbon Australia Limited (LCAL) and the CEFC are merging, with the majority of LCAL staff having accepted positions with the CEFC. LCAL is expected to have no staff by 30 June 2013.
(s) The projected increase of 73 between 2012-13 and 2013-14 largely reflects hosting the Group of 20 (see the 2012-13 Budget measure, Australia to host the Group of 20 in 2014).
(t) The National Portrait Gallery of Australia (NPGA) will commence operations as a separate agency on 1 July 2013. The NPGA was previously included in the ASL of the Department of Regional Australia, Local Government, Arts and Sport.
(u) The projected increase of 139 between 2012-13 and 2013-14 includes the impact of the staff transferred from the former Department of Climate Change and Energy Efficiency (DCCEE) as a result of Machinery of Government changes on 25 March 2013. The ASL for 2012-13 includes only the part year impact (from 26 March 2013 to 30 June 2013) of the ASL that transferred from the former DCCEE (55 ASL). Also see (h).
(v) The projected decrease of 140 between 2012-13 and 2013-14 reflects alignment of staffing to operate within the allocated budget.
(w) The projected decrease of 236 between 2012-13 and 2013-14 relates to the cyclical nature of activities for the Census as well as the efficiency dividend and other savings measures.
(x) The projected increase of 508 between 2012-13 and 2013-14 represents the impact of new measures announced in both the 2012-13 MYEFO and the 2013-14 Budget with the additional ASL mostly to support additional revenue compliance measures.

Statement 7: Asset and Liability Management

The Australian Government's financial position remains amongst the strongest in the developed world and Australia is one of only eight countries to have a AAA credit rating with a stable outlook from all three major rating agencies.

This very strong balance sheet position continues to provide the Government with the capacity and flexibility to respond to unanticipated adverse events and longer-term challenges.

The Australian Government's net debt position remains very low by international standards, notwithstanding the large further write-down to tax receipts contributing to an increase in net debt since the 2012-13 Budget. Australia's net debt levels will remain less than one-eighth of the level in major advanced economies.

In this Budget, the Government maintains its commitment to a liquid and efficient Commonwealth Government Securities market.

A detailed balance sheet for the Australian Government general government sector is provided in Statement 9: Budget Financial Statements.

STATEMENT 7: ASSET AND LIABILITY MANAGEMENT

OVERVIEW OF THE AUSTRALIAN GOVERNMENT'S BALANCE SHEET

The Government's balance sheet shows the stocks of all government assets and liabilities. Measures such as net debt, net financial worth and net worth are aggregates drawn from the balance sheet that provide an indication of the Government's financial strength at a point in time (see Box 1).

The outlook for the Government's stocks of assets and liabilities — or the Government's balance sheet — over the forward estimates is based on a range of estimates and assumptions about those assets and liabilities. If the estimates or assumptions change, this is likely to affect the projected value of assets and liabilities, and hence change the projected path of the balance sheet measures outlined above.

Since the 2012-13 Budget several factors, including the large further write-down in tax receipts and lower yields on Commonwealth Government Securities, have resulted in an increase in the expected value of liabilities over the forward estimates. This increase in liabilities has been partly offset by increases in expected value of assets, in particular increases in expected holdings of financial assets. This has led to higher estimates for net debt, and lower estimated net financial worth and net worth than was expected at the 2012-13 Budget.

However, Australia's net debt position remains very low by international standards, with Australia one of only eight countries to have a AAA credit rating with a stable outlook from all three major credit rating agencies.

The Government's ongoing commitment to fiscal discipline and the enduring savings announced in this Budget will sustain confidence in the strength of Australia's public finances.

Statement 3: Fiscal Strategy and Outlook examines the impact of altering key economic assumptions on payments and receipts. Since the budget position is one of the main drivers of the movement in the Government's asset and liability position, changes in the economic assumptions will also affect the Government's financial stocks.

The Government reports on a range of other fiscal risks in Statement 8: Statement of Risks. These risks comprise general developments or specific events that may affect the fiscal outlook. Fiscal risks may affect expenses or revenue and, as a result, may contribute to variability in the Government's projected net debt, net financial worth and net worth position.

Measurement of the Government's financial position

Box 1: Net debt, net financial worth and net worth

Net debt is a commonly quoted measure of a government's financial strength. Historically, this was the only available stock measure for governments that were recording financial information in a cash-based accounting system. Net debt provides the most useful measure for international comparisons, given most OECD countries report on it.

Net financial worth is used by the Government as the primary indicator of balance sheet sustainability because it provides a more effective and intuitive indicator of the sustainability of the Government's finances. It is a broader measure than net debt as it includes government borrowing, superannuation and all financial assets, but is narrower than net worth since it excludes non-financial assets. There are advantages to excluding non-financial assets since they are often illiquid and cannot easily be drawn upon to meet the Government's financing needs.

Net worth is the broadest measure of the Government's financial position. It is the net position of total assets and liabilities recorded on the balance sheet.

Net debt, net financial worth and net worth

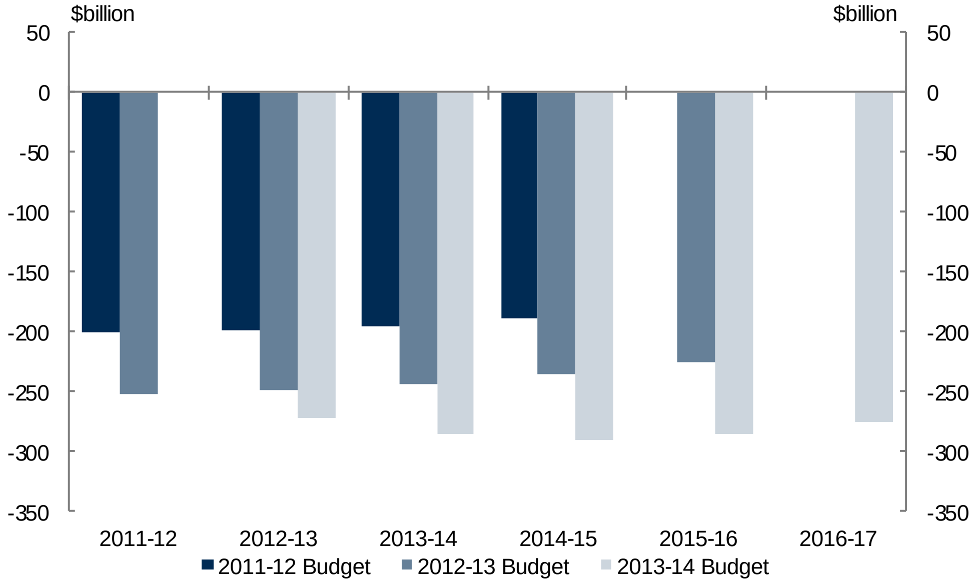
Several factors, including the large further write-down in tax receipts and lower yields on Commonwealth Government Securities, have resulted in an increase in the value of expected liabilities. This increase in liabilities has been partly offset by the assets set aside in the DisabilityCare Australia Fund as well as increases in the value of HELP assets and investments of the Future Fund. This has led to higher estimates for net debt, and lower estimated net financial worth and net worth than was expected at the 2012-13 Budget.

Net debt is now expected to peak at $191.6 billion in 2014-15 (11.4 per cent of GDP), falling to $185.7 billion (10.0 per cent of GDP) by the end of the forward estimates.

In 2013-14, net financial worth is estimated to be -$286.1 billion, compared with the 2012-13 Budget estimate of -$244.3 billion. Net financial worth is estimated to be -$275.1 billion by the end of the forward estimates.

Chart 1 shows the projected movements in net financial worth since the 2011-12 Budget.

Chart 1: Net financial worth comparison



Note: Net financial worth for 2015-16 and 2016-17 was not projected in the 2011-12 Budget; net financial worth for 2016-17 was not projected in the 2012-13 Budget. At the 2013-14 Budget, prepayments have been reclassified as financial assets to align with ABS GFS, affecting the measure of net financial worth (see Statement 9: Budget Financial Statements for further details).

Net worth is currently estimated to be -$173.5 billion in 2013-14, compared with -$132.8 billion estimated at the time of the 2012-13 Budget.

The Australian Government's financial position remains amongst the strongest in the developed world (Box 2) and is a key reason behind Australia receiving a AAA credit rating from all three major credit rating agencies. Indeed, Australia is now one of only eight countries to have a AAA rating with a stable outlook from all three agencies.

In addition to the Government's adherence to a credible medium-term fiscal framework, other key factors underpinning Australia's credit rating are the resilience of the economy, the ongoing stability of the financial system and the quality of policy and institutional arrangements, including independent monetary policy and strong financial regulation.

The Australian Government has a strong history of prudent balance sheet management, and is well placed to manage its liabilities. A recently published IMF paper on global demand for advanced economy sovereign debt noted that Australia has a particularly safe investor base, with a high share of foreign central bank and domestic investors, which are generally seen as more stable investors.

The weighted average term to maturity of Australia's Treasury Bond portfolio has been increased from 4.64 years as at 31 March 2011 to 5.22 years as at 31 March 2013. In the same period, the Australian Office of Financial Management (AOFM) has increased the rolling one year average tenor of new issuance of Treasury Bonds from 5.96 years to 8.58 years. All else being equal, increasing the term to maturity of debt reduces both refinancing risk and the variability of public debt interest costs.

Yields on Commonwealth Government Securities remain at historically low levels (see Box 3). In addition to this, all Commonwealth Government Securities are issued in Australian dollars. This means that the Australian Government faces almost no exchange rate risk on its debt and does not need to engage in foreign exchange hedging to manage its liabilities.

The Australian Government has also accumulated $85.2 billion of financial assets within the Future Fund to enhance the Government's ability to offset its unfunded superannuation liabilities.

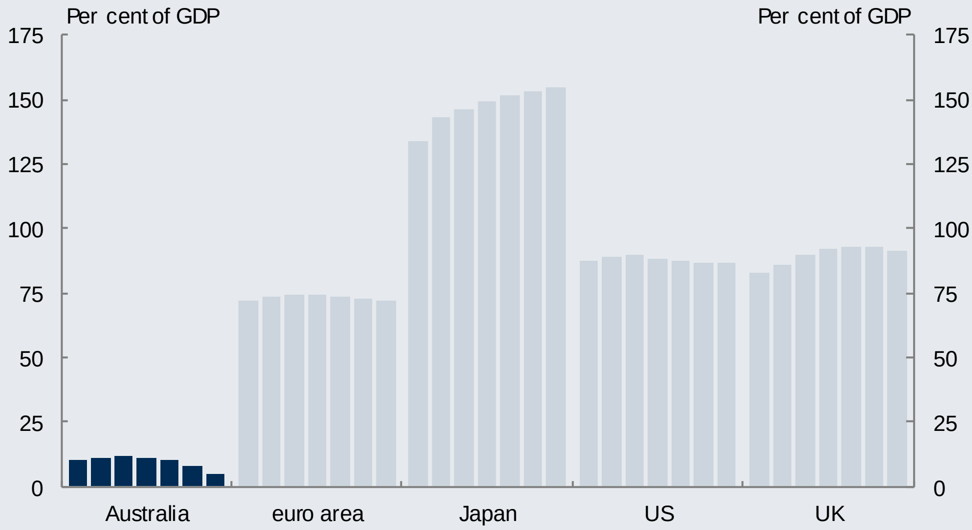
Box 2: The strength of the Australian Government's financial position

During 2012-13, many other advanced economies faced financial and fiscal challenges as a result of the accumulation of large budget deficits and high levels of sovereign debt. Several governments have continued to implement severe austerity measures to support more sustainable trajectories for government debt at a time when they also face the significant task of generating growth and reducing unacceptably high unemployment. Other governments such as those in the United States and Japan, while not currently facing market pressures, nonetheless face their own considerable medium-term fiscal consolidation challenges.

This stands in sharp contrast to the strength and resilience of the Australian Government's financial position and the resilience of the domestic economy, which is forecast to record solid growth.

Australia's level of net debt remains very low by international standards (Chart A). Australian Government net debt is expected to peak at 11.4 per cent of GDP in 2014-15, compared with the expected peak in the average net debt position of the major advanced (G7) economies of 92.6 per cent of GDP in 2014.

Chart A: Comparison of government net debt for selected economies, 2012-2018

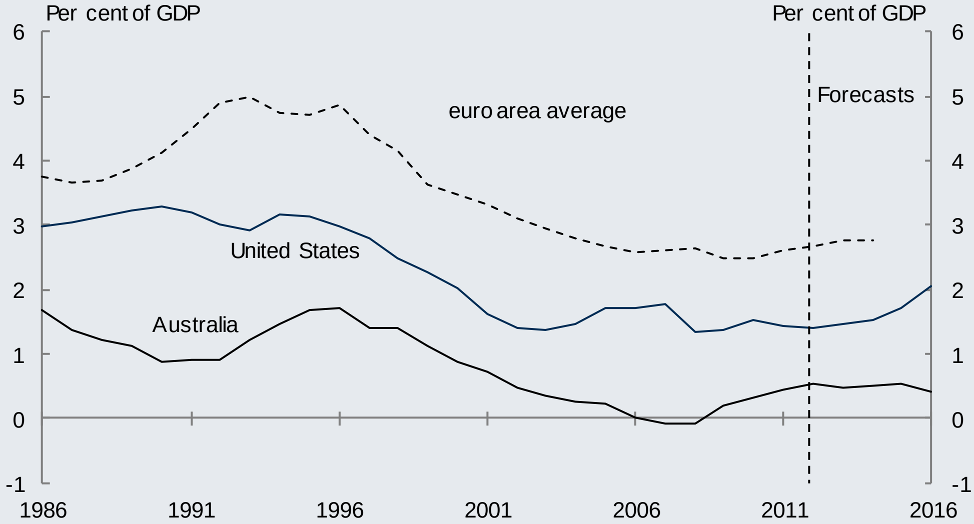


Note: Australian data are for the Australian Government general government sector and refer to financial years beginning 2012-13. Data for all other economies are total government and refer to calendar years beginning 2012.
Source: IMF *Fiscal Monitor* April 2013 and Treasury.

Box 2: The strength of the Australian Government's financial position (continued)

Similarly, Australia's net interest payments are very low by international standards (Chart B).

Chart B: Net interest payments for Australia, the US and the euro area



Note: Net interest payments are equal to the difference between interest paid and interest receipts on government assets and liabilities. Australian and US data are federal government data. Australian data refer to financial years beginning 1986-87 and is for the general government sector. US data refer to US fiscal years beginning October 1986. Euro area data are total government and refer to calendar years beginning 1986.
Source: United States Congressional Budget Office *The Budget and Economic Outlook* February 2013, OECD *Economic Outlook 92* November 2012, Thomson Reuters and Treasury.

Not only are the Government's debt levels very low by international standards, the responsible fiscal consolidation and the return to surplus within the forward estimates means that the Government is well placed to reduce net debt from its already modest level.

Returning the budget to surplus will strengthen the balance sheet further and will ensure Australia continues to have the flexibility to respond to any unanticipated adverse future events and to other longer-term challenges.

THE AUSTRALIAN GOVERNMENT'S MAJOR ASSETS AND LIABILITIES

Assets

The Government's total stock of assets is estimated to be around $352.5 billion at 30 June 2013, increasing to $376.6 billion in 2013-14 and $462.2 billion by the end of the forward estimates.

The Government's financial assets are estimated to be $242.2 billion at 30 June 2013, increasing to $264.0 billion in 2013-14 and $343.0 billion by the end of the forward estimates.

The Government's non-financial assets are estimated to be $110.3 billion at 30 June 2013, increasing to $112.6 billion in 2013-14 and $119.1 billion by the end of the forward estimates.

Future Fund

The Future Fund was established in 2006 to accumulate financial assets and invest them on behalf of the Australian Government to address the Government's unfunded superannuation liability.

The Treasurer and the Minister for Finance and Deregulation set the Investment Mandate for the Future Fund which, since the Fund's establishment, has set a benchmark return of at least the Consumer Price Index (CPI) plus 4.5 per cent to 5.5 per cent per annum over the long term. The Investment Mandate gives guidance to the Future Fund Board of Guardians (the Board) in relation to its investment strategy. The Board is independently responsible for the investment decisions of the Fund. The Investment Mandate also requires the Board to take an acceptable but not excessive level of risk for the Fund, measured in terms such as the probability of losses in a particular year.

The portfolio of assets has performed well, given the extent of uncertainty and volatility in financial markets over the past five years. Since the effective start of the investment program on 1 July 2007, the Future Fund has generated a nominal return of 5.6 per cent. Since the first contribution to the Future Fund on 5 May 2006, the return has been 5.7 per cent per annum.

At 31 March 2013, the Future Fund's return for the financial year to date was 10.6 per cent.

The Future Fund was valued at $85.2 billion at 31 March 2013.

The Future Fund's portfolio has now been substantially invested but will continue to evolve as the Board manages the portfolio in line with its mandate and strategy. Table 1 shows changes in the asset allocation of the Future Fund over 2012-13.

Table 1: Asset allocation of the Future Fund

Asset class	30 June 2012 $m	31 March 2013 $m
Australian equities	7,980	9,890
Global equities	17,343	20,262
Private equity	4,895	5,764
Property	4,948	5,473
Infrastructure	4,912	5,547
Debt securities	14,119	14,174
Alternative assets	14,653	13,060
Cash	8,163	10,996
Total Future Fund assets	77,012	85,166

Nation-building Funds

The Building Australia Fund (BAF), the Education Investment Fund (EIF) and the Health and Hospitals Fund (HHF) were established on 1 January 2009. These Nation-building Funds were established to finance investment in transport, communications, broadband, energy, water, higher education, research, vocational education and training, and health infrastructure.

The Investment Mandates for the Nation-building Funds, which are set by the Treasurer and the Minister for Finance and Deregulation, give guidance to the Future Fund Board of Guardians (the Board), which has responsibility for managing the investments of the BAF, EIF and HHF. The Board is responsible for the investment decisions of the funds.

The Investment Mandates set a benchmark return on the Nation-building Funds of the Australian three month bank bill swap rate plus 0.3 per cent per annum calculated on a rolling 12 month basis (3.9 per cent for the year to 31 March 2013). The Investment Mandates require that investments minimise the probability of capital losses over a 12-month horizon. Consistent with these requirements, the assets of the three funds are invested in combinations of short-term and medium-term debt instruments.

Over the 12 months to 31 March 2013, the BAF, EIF and HHF each returned 4.6 per cent, exceeding the mandated benchmark return of 3.9 per cent.

At the end of the March quarter 2013, the value of the BAF was $5.0 billion, the EIF was $4.1 billion and the HHF stood at $3.1 billion.

The estimated uncommitted balance of funds at 31 March 2013 was $2.2 billion for the BAF, $3.1 billion for the EIF and $0.9 billion for the HHF. These figures are the amounts available for new eligible projects and include net investment earnings up to 31 March 2013.

The Nation-building Funds are financial asset funds, consisting of cash and investments in debt instruments. When cash is drawn down from the Funds to fund projects, this reduces the size of the Funds on the balance sheet. In addition, decisions which commit to future spending from the uncommitted balances of the Funds will impact on the underlying cash balance estimates at the time those decisions are taken.

DisabilityCare Australia Fund

The Government is establishing the DisabilityCare Australia Fund (DCAF) to provide strong and stable funding for DisabilityCare Australia, the national disability insurance scheme. Revenue raised from increasing the Medicare levy by half a percentage point from 1.5 to 2 per cent will be placed into the DCAF for a fixed 10 year period from 1 July 2014 to 30 June 2024, which will only be drawn upon to fund the additional costs of delivering DisabilityCare Australia.

A fixed amount of the money flowing into the DCAF each year will be set aside for the States and Territories. In 2014-15, this fixed amount will be $825 million (which is 25 per cent of the revenue estimated to be raised in that year). Thereafter, the amount to be set aside for the States and Territories will be indexed annually by 3.5 per cent.

The balance of the DCAF will be available to the Commonwealth to meet additional expenditure during the launch and transition to full scheme of DisabilityCare Australia.

The States and Territories will be able to draw down from the DCAF when they meet key conditions, including agreement to fully implement DisabilityCare Australia and once at least 50 per cent of their eligible population is covered by the scheme. In addition, once eligible States and Territories have clients participating in DisabilityCare Australia, they will be able to access 10 per cent of their annual allocation in 2015-16 and 20 per cent of their annual allocation in 2016-17 and 2017-18 to support early establishment costs related to DisabilityCare Australia.

The DCAF will be established on 1 July 2014 and will be managed by the Future Fund Board of Guardians. The Treasurer and Minister for Finance and Deregulation will set an Investment Mandate for the DCAF which will provide guidance to the Board in relation to its investment strategy for the Fund.

Residential mortgage-backed securities

The global financial crisis led to the profound dislocation of the securitisation market globally, including the Australian residential mortgage-backed securities (RMBS) market. In view of these developments, in October 2008 the Government directed the AOFM to invest in high quality, AAA-rated Australian securities to support competition from smaller lenders in the residential mortgage and small business lending markets.

During the life of the program, the AOFM program supported 67 securitisation deals, which raised over $45 billion, assisting 20 smaller mortgage lenders to continue lending to the retail market. In total, AOFM directly invested $15.5 billion in high-quality RMBS issued by smaller lenders. It is estimated that the program assisted smaller lenders fund the equivalent of 245,000 home loans and more than $3.2 billion worth of loans to small businesses. The program also helped preserve critical market infrastructure that has allowed the market to quickly rebound after the financial crisis, which has helped smaller lenders continue to raise more economic funding to exert competitive pressure on the major banks. The AOFM program has made an important contribution to boosting competition in the banking sector.

Conditions in the Australian securitisation market have improved substantially since the introduction of the AOFM program. Since September 2012, private demand for securitisation had increased to the extent that the AOFM was not required to provide any direct investment in new RMBS deals.

Given the improvement in the market, the Deputy Prime Minister and Treasurer announced on 10 April 2013 that the program would close for new investment. The AOFM may continue to hold previously purchased RMBS until their maturity. However, where the sale of RMBS held by the AOFM can occur at a price the AOFM considers acceptable and continues to support market recovery, the AOFM is empowered to undertake such a sale.

The AOFM and the Treasury will continue to monitor conditions in the RMBS market closely.

National Broadband Network

NBN Co Limited (NBN Co) was established on 9 April 2009 to design, build and operate the National Broadband Network (NBN), the single largest nation building infrastructure project in Australian history. NBN Co is a Government Business Enterprise, wholly owned by the Australian Government and represented by two Shareholder Ministers — the Minister for Finance and Deregulation and the Minister for Broadband, Communications and the Digital Economy.

The finalisation of the NBN Co-Telstra Definitive Agreements in March 2012 has enabled NBN Co to commence the full scale rollout of the NBN and continue expanding construction activity across Australia. Fibre rollout to over 4.8 million Australian premises is scheduled to be underway or completed by the middle of 2016.

Recently, NBN Co has identified some delays to the rollout associated with the physical mobilisation of some of its construction partners. NBN Co is working to resolve these issues and does not expect to revise the forecast 2021 completion date or overall cost of the NBN.

As a consequence of delay, NBN Co’s equity requirement from Government in 2012-13 has reduced from $4.7 billion to $2.6 billion. Over the four years from 2013-14, the Government will provide $21.4 billion in equity to NBN Co.

Higher Education Loan Program

The Higher Education Loan Program (HELP) comprises concessional loans to students that enable them to defer payment of fees for diploma level and above courses, which are paid back once earning an income above a certain level.

The value of HELP is estimated to be around $22.3 billion at 30 June 2013, which is $2.1 billion higher than projected in the 2012-13 Budget. The value of HELP is projected to grow to around $26.2 billion in 2013-14 and $42.1 billion by the end of the forward estimates.

This growth is largely a result of the estimated increase in university commencements over the forward estimates, principally the result of the uncapping of Commonwealth Support Places for Undergraduate courses from 1 January 2012 and the expansion of access to the Vocational Education and Training FEE-HELP scheme.

Clean Energy Finance Corporation

The Clean Energy Finance Corporation (CEFC) was established as a Commonwealth Authority in August 2012 through the *Clean Energy Finance Corporation Act 2012* (CEFC Act). Investment decisions are made by an independent board consistent with the CEFC Act and the high level investment mandate set by the Government. The CEFC's Special Account will be credited with $2 billion per annum for five years from 1 July 2013 to allow the CEFC to invest, directly and indirectly, in clean energy technologies.

The CEFC was established to finance Australia's clean energy sector using financial products and structures to address the barriers inhibiting investment. The CEFC is a mechanism to help mobilise investment in renewable energy, low-emissions and energy efficiency projects and technologies in Australia, as well as manufacturing businesses and services that produce the required inputs. It will invest at the demonstration, commercialisation and deployment stages of innovation using a range of financial instruments to make these investments, including loans on commercial and concessional terms, loan guarantees and equity. The CEFC will apply commercial rigour when making its investment decisions and have regard to its potential effect on other market participants when considering investment proposals.

Further information can be found in the measure: Clean Energy Finance Corporation detailed in the *Mid-Year Economic and Fiscal Outlook 2011-12*.

Liabilities

The Government's total liabilities are estimated to be $513.6 billion at 30 June 2013, increasing to $550.1 billion in 2013-14 and $618.1 billion by the end of the forward estimates.

Public sector employee superannuation liabilities

Public sector employee superannuation entitlements relating to past and present civilian employees and military personnel are a financial liability on the Government's balance sheet. The Government's superannuation liability is estimated to be around $143.5 billion at 30 June 2013.

The Australian Government has never fully funded its superannuation liabilities. The Commonwealth Sector Superannuation (CSS) Scheme and the Public Sector Superannuation (PSS) Scheme were closed to new members in 1990 and 2005 respectively. The Public Sector Superannuation Accumulation Plan was introduced from 1 July 2005 and provides fully funded accumulation benefits for new civilian employees.

Despite these reforms, the value of the Government's existing superannuation liability is projected to continue growing (in nominal terms) into the future, reaching $164.8 billion by the end of the forward estimates. This is the result of growth in the membership of the Military Superannuation and Benefits Scheme (MSBS), which remains open to new military personnel, and continued growth of entitlements accruing to existing members of the closed civilian and military schemes.

An actuarially determined discount rate is used to estimate the present value of future unfunded superannuation benefits. The long-term nature of the unfunded superannuation liability requires the use of a discount rate that best matches the duration of the liability. The value recorded on the balance sheet is highly sensitive to the discount rate used. The use of a long-term discount rate for budget purposes avoids introducing volatility that would occur by using a discount rate based on yields on government bonds that varies periodically. Consistent with the latest Long Term Cost Reports for the civilian and military schemes, the discount rate currently applied is 6.0 per cent per annum.

As the superannuation liability is included in the Government's net worth and net financial worth aggregates, revaluations of the liability have an impact on these aggregates (see Note 1 in Budget Statement 9).

The Unfunded Superannuation Liability and the Future Fund Balance

The Future Fund was established by the *Future Fund Act 2006* (the Act) to enhance the ability of the Commonwealth to discharge unfunded superannuation liabilities expected after 2020. The Future Fund and the unfunded superannuation liability represent significant items on the Commonwealth's balance sheet.

Primarily as a result of changes in member behaviour, for example, members increasingly taking more of their benefit as a lifetime pension rather than as a lump sum, and members living longer after retirement, the unfunded liability has increased compared to previous projections. No government decision has materially contributed to the increase in the liability.

The open Military Superannuation and Benefits Scheme (MSBS) is the main driver of the increase in the unfunded superannuation liability into the future. Other material Government defined benefit schemes are no longer open to new members.

The size of the Future Fund depends upon its investment performance. The Future Fund has performed well, given the extent of uncertainty and volatility in financial markets over the past five years including the adverse effects of the global financial crisis. Over five years to 31 March 2013, the Fund has generated annualised returns of 6.4 per cent. This compares favourably to the 3.2 per cent returns achieved by balanced superannuation funds over the same period (Source: SuperRatings).

As at 30 June 2013, the Future Fund balance is estimated to be $87 billion and the unfunded superannuation liability is valued at $143 billion, with a difference projected to continue over the medium term. The increase in the unfunded liability compared to projections when the Future Fund was established is $19 billion.

The Government continues to support the goal of the Future Fund having sufficient resources to fund the Commonwealth's future superannuation liability and would consider further contributions to the Fund as fiscal circumstances allow.

Commonwealth Government Securities

The face value of the total stock of Commonwealth Government Securities (CGS) on issue at 30 June 2013 is expected to be $256 billion. The face value of Treasury Bonds and Notes represents the amount that the Government pays back at maturity. The face value of Treasury Indexed Bonds represents the capital value unadjusted for inflation. Face value is independent of fluctuations in market value.

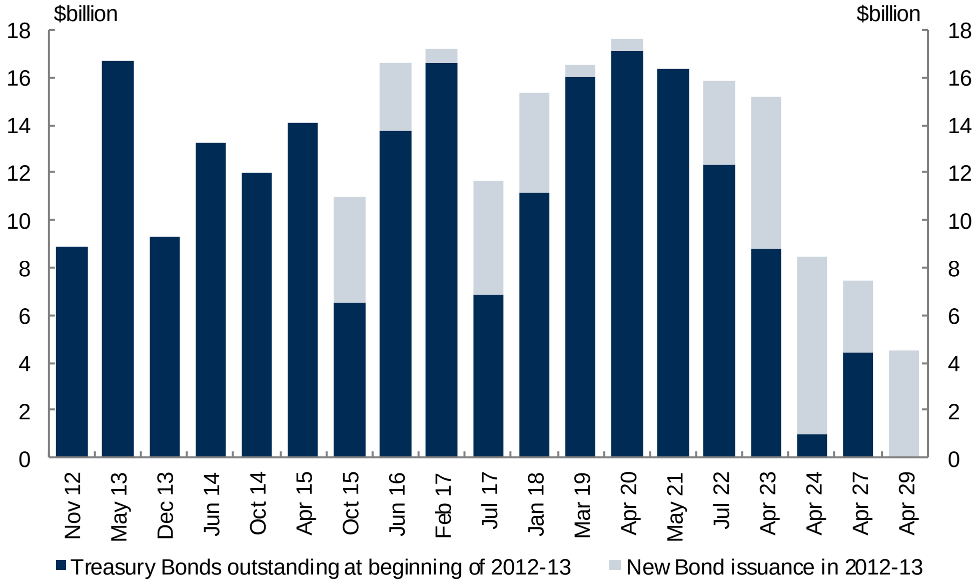
CGS are reported on the balance sheet in market value terms, consistent with relevant accounting standards. The market value of CGS reflects bond prices in the secondary market, which are constantly changing with market conditions.

The AOFM's approach in recent years has been to lengthen both the nominal and real yield curves gradually. The current yield curves extend to April 2029 for (nominal) Treasury Bonds and September 2030 for (real) Treasury Indexed Bonds. Incremental extensions to the yield curve have facilitated efficient pricing of new bond lines.

Treasury Bonds

Chart 2 shows the face value of Treasury Bonds outstanding at 30 June 2012 and new issuance in 2012-13. One new Treasury Bond line was launched in 2012-13. This was an April 2029 maturity.

Chart 2: Treasury Bonds on issue



Note: New issuance in 2012-13 is to 14 May 2013.

The face value of Treasury Bonds on issue at 30 June 2013 is projected to be around $233 billion, and around $260 billion at 30 June 2014.

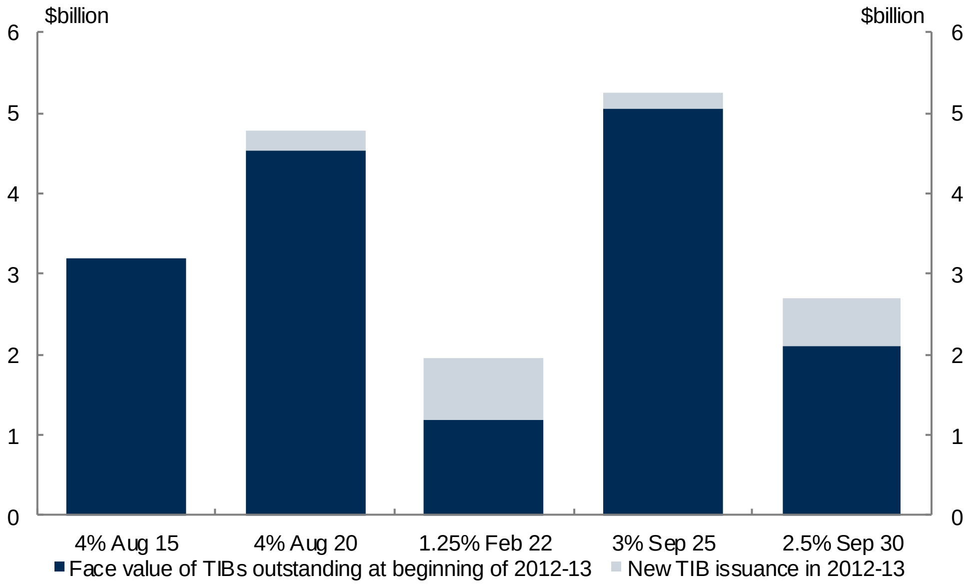
Treasury Indexed Bonds

Treasury Indexed Bonds (TIBs) are medium-term to long-term securities that have a capital value which is adjusted for movements in the CPI. Interest is paid quarterly, at a fixed rate, on the adjusted capital value. At maturity, investors receive the adjusted capital value of the security. The Australian Government recommenced the issuance of TIBs in 2009-10.

TIBs contribute to the management of Australian Government debt by widening the range of available debt instruments, diversifying risk and tapping additional sources of investor demand.

Chart 3 shows TIBs outstanding at 30 June 2012 and new issuance in 2012-13.

Chart 3: Treasury Indexed Bonds on issue



Note: New issuance in 2012-13 is to 14 May 2013.

The face value of TIBs on issue at 30 June 2013 is projected to be around $18 billion, and around $22 billion at 30 June 2014.

Interest payments made on TIBs are reflected in the Government's cash flow statements, with the adjusted capital value paid in the year which the bond matures. In 2015-16 there is an increase in interest paid as a result of the August 2015 TIB maturing.

Treasury Notes

Treasury Notes are short-term debt securities used primarily to meet within-year financing requirements resulting from differences in the timing of receipts and payments. The volume of Treasury Notes on issue will vary over the course of the year, depending on the size and profile of the within-year funding flows. In October 2012, the AOFM announced that the 'floor' of $10 billion of Treasury Notes on issue will no longer be maintained and there are expected to be times when there will be no Treasury Notes on issue.

Aussie Infrastructure Bonds

In April 2009, the Government announced that its investment in NBN Co would be partly funded through the issuance of Aussie Infrastructure Bonds (AIBs).

AIBs were not required prior to 2011-12, as the Government's equity contributions were met in full with funds from the Building Australia Fund (BAF).

In 2011-12, all of the Government's $1.5 billion equity investment in NBN Co was financed through AIBs, through the wholesale issuance of Commonwealth Government Securities as part of the AOFM's overall debt program. In 2012-13, it is expected that $2.3 billion of the Government's $2.6 billion equity investment in NBN Co will be financed through AIBs in the same manner, with the remainder coming from the BAF. From 2013-14, all of the Government's equity contributions to NBN Co will be financed through AIBs.

Legislative framework

The *Commonwealth Inscribed Stock Act 1911* places a limit on the outstanding stock of Commonwealth Government Securities. The Government will legislate to increase the limit as it becomes necessary.

THE COMMONWEALTH GOVERNMENT SECURITIES MARKET

In the 2011-12 Budget, the Government reaffirmed that its primary objective for the future of the Commonwealth Government Securities (CGS) market is to maintain liquidity to support the three- and ten-year bond futures market. The Government is maintaining this objective in the 2013-14 Budget. The experience of the global financial crisis underscored the value of maintaining a liquid and efficient CGS market of sufficient size to support the long-term stability of the financial markets.

In considering the future of the CGS market, including the size needed to ensure liquidity, the Government's deliberations were informed by discussion with a panel of financial market participants and financial regulators. The panel considered the impact of the global financial crisis, the new global liquidity standards and the changing composition of the CGS investor base on the CGS market.

Since the 2011-12 Budget there have been significant developments in world financial markets that have had implications for the CGS market, in particular the growing demand from international investors for Australian dollar denominated securities, including CGS, against a backdrop of global economic volatility and persistently weak sovereign balance sheets in many other advanced economies.

The strength of Australia's public finances and its continued economic resilience stand in stark contrast to many other sovereigns, which are facing a significant task of placing public finances on a sustainable footing, while supporting growth and jobs.

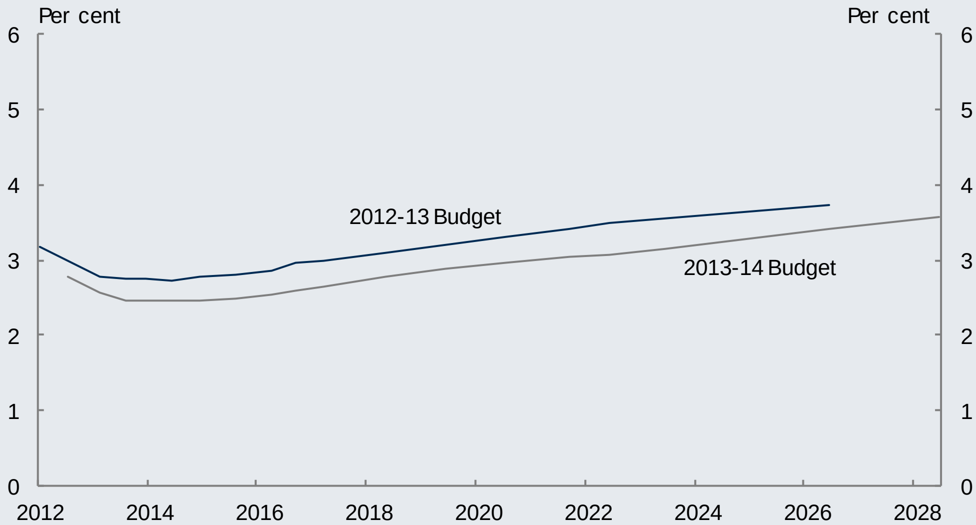
A number of factors have influenced the fall in yields on Treasury Bonds. The benchmark borrowing rate for the ten-year Treasury Bond has fallen to some of the lowest levels in Australia's history (see Box 3).

Box 3: Increased demand for Australia's sovereign debt

CGS yields have fallen across the yield curve since the 2012-13 Budget (Chart A), resulting in lower borrowing rates for the Government. Following the 2012-13 Budget, CGS yields fell to some of the lowest levels on record owing to the uncertain global economic environment. Although yields have risen since then, they remain at historically low levels (Chart B).

These historically low yields are a result of a range of factors including Australia's strong public finances and economic resilience, strong foreign demand for a dwindling pool of AAA rated securities like Australia's, the overall subdued global growth outlook which is placing downward pressure on global long-term bond yields, increasing diversity in the buyers of government debt and the attractiveness of the deep and liquid CGS market.

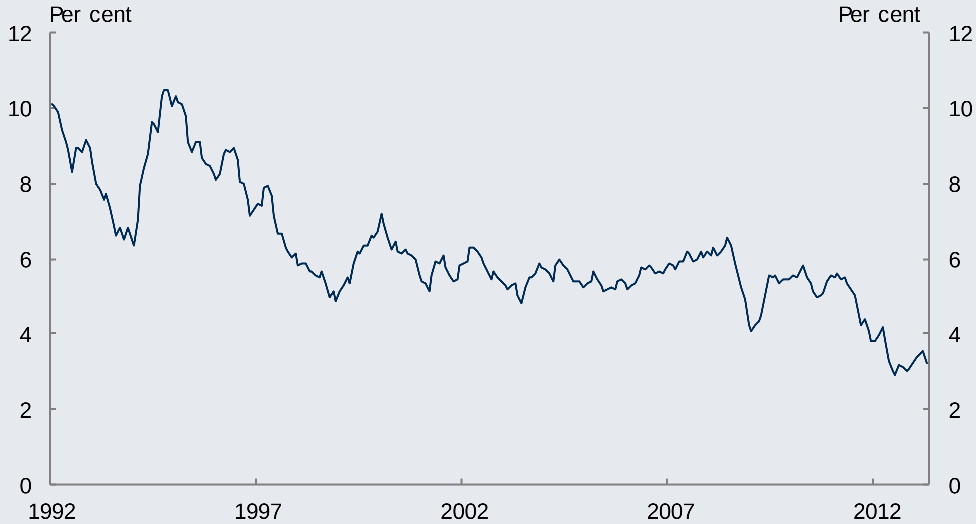
Chart A: Yield curve for Treasury Bonds



Note: Yields are indicative mid-rates of CGS. Data for the 2012-13 Budget and 2013-14 Budget refer to yields on 8 May 2012 and on 7 May 2013 respectively.
Source: RBA.

Box 3: Increased demand for Australia's sovereign debt (continued)

Chart B: Historical ten-year Treasury Bond yields



Source: RBA.

Statement 8: Statement of Risks

A range of factors may influence the actual budget outcome in future years. The *Charter of Budget Honesty Act 1998* requires these factors to be disclosed in a statement of risks in each Budget and Mid-Year Economic and Fiscal Outlook. This statement outlines general fiscal risks, specific contingent liabilities and specific contingent assets that may affect the budget balances.

Statement 8: Statement of Risks

The forward estimates of revenue and expenses in the 2013-14 Budget incorporate assumptions and judgments based on the best information available at the time of publication. A range of factors may influence the actual budget outcome in future years. The disclosure of these factors in this statement increases the transparency of the fiscal projections.

Events that could affect fiscal outcomes include:

- changes in economic and other parameters, particularly global economic developments;
- matters not included in the fiscal forecasts because of uncertainty about their timing, magnitude or likelihood; and
- the realisation of contingent liabilities or assets.

Risks to the Budget — overview

The revenue and expense estimates and projections published in the 2013-14 Budget Papers are based on a range of economic and other parameters. If the economic outlook were to differ from that presented in the Budget, the revenue and expense estimates and projections would also change. The sensitivity of Budget estimates to changes in economic assumptions is discussed in Appendix A of Statement 3.

Although the Australian economy is forecast to grow close to its trend rate over the forward estimates, a degree of uncertainty continues in the global economy and will continue to present risks to the forecasts. Moreover, the effects of the earlier economic downturn continue to weigh on tax collections.

To the extent that unanticipated changes in economic circumstances occur, their impact will flow through to government payments and revenue forecasts in particular. For example, over the past year the outlook for economic growth and tax revenue in 2012-13 has weakened, reflecting weaker nominal economic growth (in particular weaker corporate profitability), a slower recovery in capital gains tax and lower revenues from resource rent taxes.

In addition, revenue forecasting relies heavily on the observed historical relationships between the economy, tax bases and tax revenues. Such relationships may shift as economic conditions change and present a further risk to the estimates. For example, the real and financial dimensions of the fragile global economy and uneven domestic conditions have posed particular challenges in estimating both the quantum and timing of loss utilisation. Losses incurred during the downturn can be carried forward to offset gains or profits as the economy recovers, such that to the extent tax revenue improves it does so with some lag.

As in previous years, the Budget is subject to a number of contingent liabilities. A large number of these contingent liabilities reflect indemnities, including those relating to the Department of Defence, the Defence Materiel Organisation, the Future Fund Management Agency and Future Fund Board of Guardians, and the Reserve Bank of Australia.

The Government has also issued a number of guarantees, such as those relating to guarantee schemes for the banking and financial sector, payments by the Export Finance and Insurance Corporation and the superannuation liabilities of the Commonwealth Bank prior to its sale to the private sector.

Other significant contingent liabilities relate to uncalled capital subscriptions and credit facilities to international financial institutions and legal cases concerning the Australian Government. The Government continues to have robust and conservative strategies in place to reduce its potential exposure to these contingent liabilities.

There have been several changes to both the quantifiable and unquantifiable risks since the *Mid-Year Economic and Fiscal Outlook 2012-13* (MYEFO). General revaluations of securities and deposits have led to certain risks such as the Guarantee of State and Territory Borrowings and the Financial Claims Scheme being modified. Some new risk items have also arisen since the MYEFO.

Contingent liabilities, contingent assets and other fiscal risks with a possible impact on the forward estimates greater than $20 million in any one year, or $50 million over the forward estimates period, are listed in this statement. Information on contingent liabilities and contingent assets is also provided in the Australian Government's annual consolidated financial statements and in the annual financial statements of departments and non-budget entities.

ECONOMIC AND OTHER PARAMETERS

Changes in economic parameters represent a risk to the estimates included in the Budget. As noted earlier, the uncertainty currently surrounding the global economic outlook implies that the degree of risk to the fiscal outlook remains elevated. Appendix A of Statement 3 examines the impact on receipts and payments of altering some of the key economic assumptions underlying the Budget estimates.

FISCAL RISKS

Fiscal risks comprise general developments or specific events that may affect the fiscal outlook. Some developments or events raise the possibility of a fiscal impact. In other cases, the likelihood of a fiscal impact may be reasonably certain, but will not be included in the forward estimates because the timing or magnitude is not known.

Major taxes such as company and individuals' income taxes fluctuate significantly with economic activity. Capital gains tax is particularly volatile and is affected by both the level of gains in asset markets and the timing of when those gains are realised. Similarly, superannuation fund income tax is affected by investment market returns. Resource rent taxes may vary quite significantly, particularly with movements in commodity prices and the level of the Australian dollar. Revenue from carbon permit sales related to the flexible price period may also vary owing to changes in the international price of carbon permits.

The estimates and projections of revenue are subject to a number of general risks that can affect taxation collections. These general pressures include tax avoidance, court decisions, Australian Taxation Office rulings and the outcome of compliance programs. These pressures may result in a shift in the composition of taxation collected from the various tax bases and/or a change in the size of the tax base.

There are also a number of fiscal risks that may affect the expense estimates and projections. In particular, demand driven programs, which form the bulk of the government's payments and expenses, can fluctuate significantly with economic and social conditions. If changes to these conditions are not anticipated this can have major effects on payment and expense levels. For example, an expected increase in the number of unemployed in the population could lead to additional welfare related expenses. Fiscal risks also include emergency foreign aid and potential natural disasters. Such occurrences have in the past resulted in unexpected increases in expenses and may do so again. Specific fiscal risks to the budget and forward estimates are detailed below.

The estimates for the Department of Defence include the cost of major overseas operations of the Australian Defence Force in Afghanistan and the Middle East, and the Solomon Islands throughout 2013-14. Current estimates relate to 2013-14 only and do not provide for extensions of currently approved operations beyond 2013-14. Such funding is considered on a year-by-year basis and is subject to future decisions of the Government. This is consistent with past practice.

The Australian Government will make up to A$1 billion available to the Government of Indonesia in the form of a standby loan facility to help support its financial position, to be drawn down should Indonesia be unable to raise sufficient funds at reasonable interest rates on global capital markets in the event of increased global financial market volatility. Contributions to the standby loan facility will also be provided by the World Bank, the Asian Development Bank and the Government of Japan. This facility will be available to Indonesia when the loan agreement between the two countries is signed (expected to occur before the end of June 2013) up to 30 June 2014. A drawdown from the facility will be dependent on a request from the Indonesian Government and subject to certain criteria being met. Any funds provided will be repaid in full with interest.

The Australian Government has supported the Gold Coast's bid to host the 2018 Commonwealth Games through the provision of commitments in areas such as immigration, customs, work permits, taxation, security, protection of commercial rights, and communications and information technology. Costs and timing associated with implementing the commitments are not available at this time.

There are a significant number of measures which impact on the Budget aggregates that still remain subject to the legislative process. If legislation is not passed by Parliament as proposed, this may affect the estimates and projections of the Budget.

CONTINGENT LIABILITIES AND ASSETS

Contingent liabilities and contingent assets of the Australian Government are listed below by portfolio. These contingent liabilities and assets are a specific category of fiscal risks. Broadly, they represent possible costs or gains to the Australian Government arising from past events or decisions which will be confirmed or otherwise by the outcome of future events that are not within the Government's control.

Contingencies reported in this statement include loan guarantees, non-loan guarantees, warranties, indemnities, uncalled capital and letters of comfort, together with those contingencies considered remote. These contingencies are in addition to the liabilities and assets already recognised in the consolidated financial statements of the Australian Government general government sector in Statement 9.

In general, information on contingent liabilities and assets is based on information provided by Australian Government departments and entities and is current to 31 March 2013. In some cases, other dates are used and those are noted in the relevant section.

Table 1: Summary of material changes to contingent liabilities and contingent assets in the Statement of Risks since the 2012-13 Budget and the 2012-13 MYEFO[(a)]

Contingent liabilities — quantifiable	
Attorney-General's	
Northern Maritime Patrol and Response — Ashmore Guardian	Modified
Broadband, Communications and the Digital Economy	
NBN Co Limited — Equity Agreement	Modified
Telstra Financial Guarantee	Modified
Defence and Defence Material Organisations	
Indemnities and remote contingencies	Modified
Education, Employment and Workplace Relations	
Comcare liability for additional workers' compensation payments	Removed
Indemnity provided to the Administrator and the Assistant Administrators of the Health Services Union	Modified
Finance and Deregulation	
Sale of Sydney Airports Corporation Limited	Removed
Foreign Affairs and Trade	
Export Finance and Insurance Corporation	Modified
Health and Ageing	
Guarantee Scheme for aged care accommodation bonds	Modified
Treasury	
Australian Taxation Office — tax disputes	Modified
Contingent liability for the payment of unclaimed monies under the *Banking Act*, the *Life Insurance Act* and the *Corporations Act*	New
Guarantees under the *Commonwealth Bank Sale Act 1995*	Modified
International financial institutions — uncalled capital subscriptions	Modified
International Monetary Fund	Modified
Reserve Bank of Australia — guarantee	Modified
Contingent liabilities — unquantifiable	
Agriculture, Fisheries and Forestry	
Compensation claims arising from equine influenza outbreak	Modified
Compensation claims arising from suspension of livestock exports to Indonesia	Modified
Emergency pest and disease response arrangements	Modified
Attorney-General's	
Australian Victims of Terrorism Overseas Payments	Modified
Northern Maritime Patrol and Response — Triton	Modified
Broadband, Communications and the Digital Economy	
Termination of the funding agreement with OPEL	Modified
Defence and Defence Material Organisations	
Decontamination of Defence sites	Modified
Indemnities and remote contingencies	Modified
Education, Employment and Workplace Relations	
Job Services Australia — Employment Pathway Fund	New
Finance and Deregulation	
Australian Government domestic property	Removed
Comcover — insurance claims and reinsurance recoveries	Modified
Commonwealth Superannuation Corporation — immunity and indemnity	Modified

Table 1: Summary of material changes to contingent liabilities and contingent assets in the Statement of Risks since the 2012-13 Budget and the 2012-13 MYEFO[a] (continued)

Contingent liabilities — unquantifiable (continued)	
Contractual Leasing Agreement	New
Health and Ageing	
Legal proceedings against the Professional Services Review impacting on the validity of past Committees(b)	Removed
Immigration and Citizenship	
Education Services to Minors in Alternative Places of Detention — liability limit South Australia	Modified
Immigration detention services — liability limits	Modified
Regional Processing Centres — liability limit	New
Infrastructure and Transport	
Australian Maritime Safety Authority incident costs	Modified
Resources, Energy and Tourism	
Gorgon liquefied natural gas and carbon dioxide storage project — long-term liability	Modified
Sustainability, Environment, Water, Population and Communities	
End of lease at the former National Halon Bank site, Braybrook, Victoria	New
Murray-Darling Basin Reform — additional net costs	Modified
Murray-Darling Basin Reform — risk assignment	Removed
Treasury	
Australian Taxation Office — Constitutional Challenge to the Minerals Resource Rent Tax	Modified
Financial Claims Scheme	Modified
Guarantee of State and Territory Borrowing	Modified
Guarantee Scheme for Large Deposits and Wholesale Funding	Modified
Contingent assets — unquantifiable	
Health and Ageing	
Legal action seeking compensation from Wyeth	New
Industry, Innovation, Climate Change, Science, Research and Tertiary Education	
Wireless Local Area Network	Modified

(a) Risks appearing in this Statement but not listed in the table above are substantially unchanged since disclosed in Budget Paper No. 1, *Budget Strategy and Outlook 2012-13*, Statement 8 or in the *Mid-Year Economic and Fiscal Outlook 2012-13*, Appendix C.
(b) The High Court challenge was won by the Government and retrospective legislation was put in place.

CONTINGENT LIABILITIES — QUANTIFIABLE

Attorney-General's

Northern Maritime Patrol and Response — Ashmore Guardian

The Australian Government has entered into a contractual arrangement with Gardline Australia Pty Ltd until 31 December 2013 for the provision of a vessel to patrol and respond to incursions in the Ashmore Reef National Nature Reserve and the Cartier Island Marine Reserve. The contract with Gardline Australia contains an indemnity clause relating to the use or other operations of armaments and the presence of armaments on the vessel. The indemnity is limited to three times the total amount or otherwise due under the contract.

While a claim on the Commonwealth is unlikely to occur, the maximum potential claim is estimated to be approximately $100 million in 2013-14 only.

Broadband, Communications and the Digital Economy

NBN Co Limited — Equity Agreement

The Australian Government has entered into an Equity Funding Agreement with NBN Co. The Agreement formalises the Commonwealth's intention to provide equity to fund the roll out of the National Broadband Network, with such funding being conditional on the annual appropriation processes. In addition, it commits the Commonwealth, in the event of a termination of the national broadband network roll out, to provide sufficient funds to NBN Co to meet its direct costs arising from that termination. The NBN Co Equity Agreement terminates in 2021. As at 28 February 2013, NBN Co's termination liabilities were estimated at $3.4 billion.

Telstra Financial Guarantee

The Australian Government has provided a guarantee to Telstra in respect of NBN Co's financial obligations to Telstra under the Definitive Agreements. The Definitive Agreements are long-term contracts and, in the case of the infrastructure component, involve terms of at least 35 years. The liabilities under the Definitive Agreements arise progressively during the roll out of the network as infrastructure is accessed and subscribers to Telstra's existing network are disconnected. As at 28 February 2013, NBN Co had generated liabilities covered by the Guarantee estimated at $896 million. The Guarantee will terminate when NBN Co achieves specified credit ratings for a period of two continuous years and either:

- the company is fully capitalised; or
- the Communications Minister declares, under the *National Broadband Network Companies Act 2011*, that, in his or her opinion, the national broadband network should be treated as built and fully operational.

Defence and Defence Materiel Organisation

Indemnities and remote contingencies

As at 31 March 2013, Defence carried 1,364 instances of quantifiable significant remote contingent liabilities with a nominal value of $3 billion. These significant remote contingent liabilities are restricted in nature and details are not given due to reasons of commercial in confidence and/or national security. While these contingencies are considered remote, they have been reported in aggregate for completeness.

Education, Employment and Workplace Relations

Indemnity provided to the Administrator and the Assistant Administrator of the Health Services Union

The Australian Government has provided the Administrator and the Assistant Administrators of the Health Services Union with indemnities associated with their performance, pursuant to section 323 of the *Fair Work (Registered Organisations) Act 2009 (Cth)*.

The Commonwealth will irrevocably indemnify the indemnified parties against any and all demands, claims, suits, actions, liabilities, losses, costs and expenses which may be made or brought against or suffered or incurred by the indemnified parties in respect of the indemnified event or as a direct or indirect result of any claim made or purported to be made in respect of the indemnified event as evidenced in writing up to $20 million. There are three indemnities; each indemnity is to the value of $20 million.

Foreign Affairs and Trade

Export Finance and Insurance Corporation

The Australian Government guarantees the due payment of money that is, or may at any time become, payable by Export Finance and Insurance Corporation (EFIC) to anybody other than the Government. The Government also has in place a $200 million callable capital facility available to EFIC on request to cover liabilities, losses and claims. As at 31 March 2013, the Government's total contingent liability was $3.2 billion, up from $3 billion reported in the 2012-13 MYEFO. The $3.2 billion contingent liability comprises EFIC's liabilities to third parties ($2.4 billion) and EFIC's overseas investment insurance, contracts of insurance and guarantees ($0.8 billion). Of the total contingent liability, $2.6 billion relates to EFIC's Commercial Account and $0.6 billion relates to the National Interest Account.

Health and Ageing

Guarantee Scheme for aged care accommodation bonds

A Guarantee Scheme has been established through the *Aged Care (Bond Security) Act 2006* and *Aged Care (Bond Security) Levy Act 2006*. Under the Guarantee Scheme, if a provider becomes insolvent or bankrupt and is unable to repay outstanding bond balances to aged care residents, the Australian Government will repay the bond balances owing to each resident. In return, the resident's rights to pursue the defaulting provider to recover the accommodation bond money transfer to the Government. In the event the Government cannot recover the full amount from the defaulting provider, it may levy all providers holding accommodation bonds to recoup the shortfall. On 30 June 2012, the maximum contingent liability, in the unlikely event that all providers defaulted, was $13 billion.

It is anticipated that amendments will be made to the Guarantee Scheme through the Aged Care (Bonds Security) Amendment Bill 2013 and the Aged Care (Bond Security) Levy Amendment Bill 2013. These bills propose to extend the current guarantee for bonds paid by aged care residents (outlined above), to also cover future lump sum accommodation payments paid by aged care residents. The passing of this legislation would mean that both bonds paid by aged care residents (before 1 July 2014) and refundable accommodation deposits made by aged care residents (after 1 July 2014) are guaranteed by the Government if an aged care provider becomes insolvent or bankrupt.

Treasury

Australian Taxation Office — tax disputes

At any point in time the Australian Taxation Office is involved in a range of dispute resolution processes, including litigation, relating to tax disputes.

Outcomes of dispute resolution processes, including objections, settlements and court and tribunal decisions, are set out in the Commissioner of Taxation's Annual Report each year. In addition, amounts owed by taxpayers that are subject to dispute, including objections and appeals, are also disclosed in the Commissioner of Taxation's Annual Report each year. The estimated aggregate value of tax in dispute as at 31 March 2013, for which a provision has not been made, is $5.2 billion.

Details of the outcome of dispute resolution processes are uncertain until a court ruling is made and/or an agreement is reached with the taxpayer at some future date. As a result, in most cases it is not possible to estimate with any reliability the likely financial impact of current disputes.

Contingent liability for the payment of unclaimed monies under the *Banking Act*, the *Life Insurance Act* and the *Corporations Act*

The Australian Securities and Investments Commission (ASIC) is responsible for the administration of unclaimed monies under the *Banking Act*, the *Life Insurance Act* and the *Corporations Act*. Based on historic data it is unlikely that all unclaimed monies will ultimately be refunded to claimants. ASIC has recognised a provision for likely future claims and estimates the residual contingent liability for unclaimed monies administered by ASIC at 31 March 2013 to be $325 million, which includes contingent liabilities considered remote.

Guarantees under the *Commonwealth Bank Sale Act 1995*

Under the terms of the *Commonwealth Bank Sale Act 1995*, the Australian Government has guaranteed various superannuation and other liabilities; $0.7 billion is attributable to liabilities of the Commonwealth Bank of Australia, as at 28 March 2013, and $4.2 billion is attributable to liabilities of the Commonwealth Bank Officers' Superannuation Corporation, as at 31 December 2012.

International financial institutions — uncalled capital subscriptions

The Australian Government has held uncalled capital subscriptions in the International Bank for Reconstruction and Development (IBRD) since 1947. The Government is contributing additional resources to the IBRD as part of the general capital increase agreed in 2010. The paid-in component of Australia's contribution was a measure in the 2010-11 Budget. As part of this process, Australia will increase its uncalled capital subscription so that it totals US$3.6 billion (estimated value A$3.4 billion as at 28 March 2013).

Australia has also held uncalled capital subscriptions in the European Bank for Reconstruction and Development (EBRD) since 1991. The Government increased its uncalled capital subscription (effective 20 April 2011) to the EBRD as part of its 2010 general capital increase so that it totals EUR237.5 million (estimated value A$291.3 million as at 28 March 2013). The financial implications of the paid-in component were reported as a measure in the *Mid-Year Economic and Fiscal Outlook 2010-11*.

The Australian Government also holds uncalled capital subscriptions in the Asian Development Bank of US$7 billion (estimated value A$6.8 billion as at 28 March 2013), and the Multilateral Investment Guarantee Agency of US$26.5 million (estimated value A$25.4 million as at 28 March 2013).

None of these international financial institutions have ever drawn on Australia's uncalled capital subscriptions.

International Monetary Fund

Australia has made a line of credit available to the International Monetary Fund (IMF) under its New Arrangements to Borrow (NAB) since 1998. In line with G20 Leaders' commitments, Australia joined with other countries to increase its credit line under an expanded NAB. When the expanded NAB came into effect on 11 March 2011, Australia's NAB credit arrangement increased from SDR801.3 million (estimated value A$1.1 billion as at 28 March 2013) to SDR4.4 billion (estimated value A$6.3 billion). This is a contingent loan to help ensure that the IMF has the resources available to maintain stability and support recovery in the global economy. As agreed by G20 Finance Ministers and IMF Governors in late 2010, the credit arrangements of all NAB participants, including Australia, will be reduced when the increase in IMF quotas comes into effect. This was anticipated to occur in 2012-13, however, due to a delay in the implementation of the above agreement by the United States it is now unlikely until 2013-14.

On 20 April 2012, as part of a broad international effort to increase the resources available to the IMF, Australia committed to provide a US$7 billion (calculated as SDR4.7 billion or approximately A$6.7 billion) contingent bilateral loan to the IMF, subject to domestic legislative processes. The contingent loan is on terms consistent with separate bilateral loan and note purchase agreements to be concluded between the IMF and all contributing countries. It would be drawn upon by the IMF only if needed to supplement the IMF's quota and NAB resources, and would be repaid in full with interest. The increase in the IMF's resources will help ensure that it has the capability to address any potential vulnerability facing the global economy.

Reserve Bank of Australia — guarantee

The Australian Government guarantees the liabilities of the Reserve Bank of Australia. It is measured as the Bank's total liabilities excluding capital, reserves, and Australian Government deposits. The major component of the Bank's liabilities is notes (that is, currency) on issue. Notes on issue amount to $57 billion as at 25 March 2013, and the total guarantee is $65 billion, up from $63.1 billion reported in the 2012-13 MYEFO.

CONTINGENT LIABILITIES — UNQUANTIFIABLE

Agriculture, Fisheries and Forestry

Compensation claims arising from equine influenza outbreak

The Australian Government may become liable for compensation should it be found negligent in relation to the outbreak of equine influenza in 2007.

One claim, which commenced in Queensland, was cross-vested to the Federal Court in Sydney in February 2013, with potential to become a representative class action. The number of potential plaintiffs has not been settled, and therefore no final quantum of damages sought can be calculated. The Department of Finance and Deregulation has assumed responsibility for claims under its insurance arrangements with the Department of Agriculture, Fisheries and Forestry.

Compensation claims arising from suspension of livestock exports to Indonesia

The Australian Government has received correspondence that indicates there are a number of potential claimants who are alleging losses due to the temporary suspension of exports of live animals to Indonesia that was put in place on 7 June 2011.

The Commonwealth is not currently a party to any litigated claims where legal liability for financial compensation is being claimed in relation to this suspension. As a result no final quantum of potential damages has been calculated. The Department of Finance and Deregulation, which has responsibility for Comcover (the Australian Government's general insurance fund) is managing these matters on behalf of, and in cooperation with, the Department of Agriculture, Fisheries and Forestry.

Emergency pest and disease response arrangements

National emergency response arrangements for animal, plant and environmental pest and disease outbreaks are largely funded through cost sharing agreements between Australian governments and, where relevant, agricultural industry bodies. Under the terms of the agreements, the Commonwealth is typically liable for 50 per cent of total government funding to respond to a disease or pest outbreak. Limited funds are provided to the States and Territories for the Commonwealth's contribution under emergency response agreements, however, potential costs vary and are dependent on the extent of outbreaks, frequency and location which are impossible to predict.

The Commonwealth may be further liable in situations where an incursion is not covered by a cost sharing agreement or where the relevant industry body is not party to an agreement. The Commonwealth may also provide financial assistance to an industry party by funding its initial share of the response. These contributions may subsequently be recovered from the industry over a ten-year period, usually by a levy.

Attorney-General's

Australian Victims of Terrorism Overseas Payment

The *Social Security Amendment (Supporting Australian Victims of Terrorism Overseas) Act 2012* inserted Part 2.24AA into the *Social Security Act 1991* (the Act) to create a scheme for providing financial assistance to Australians who are victims of an overseas terrorist act that has been declared by the Prime Minister. The scheme commenced on 23 January 2013. Under the scheme, Australians harmed (primary victims) and Australians who are close family members of a person who dies as a direct result of a declared terrorist act (secondary victims) will be able to claim payments of up to $75,000. As acts of terrorism are unpredictable, the cost of the scheme is unquantifiable.

Native Title agreements — access to geospatial data

The Australian Government has entered into agreements with State and Territory government bodies and/or their agents to access their geospatial land tenure data, which is essential to support the National Native Title Tribunal in achieving its outcomes. Under these agreements, the Australian Government provides indemnities against third-party claims arising from errors in the data.

Native Title costs

The Australian Government has previously offered to assist State and Territory governments in meeting certain Native Title costs pursuant to the *Native Title Act 1993* (the NTA), including compensation costs. Consistent with the policy of considering this issue on a case by case basis subject to available funding, a National Partnership Agreement was executed in 2010 between the Commonwealth and Victoria, under which the Commonwealth will provide a contribution towards the settlement of two native title claims. No other agreement under this offer has been entered into to date.

The Australian Government will also be liable for any compensation found to be payable under the NTA in respect of compensable acts for which the Commonwealth is responsible.

The Australian Government's liability in both scenarios cannot be quantified owing to uncertainty about the number and effect of compensable acts and the value of Native Title affected by those acts.

Northern Maritime Patrol and Response — Triton

The Australian Government has entered into a contractual arrangement with Gardline Australia Pty Ltd until 30 June 2014 for the provision of a vessel to strengthen enforcement activities in Australia's northern waters. The contract with Gardline Australia contains unquantifiable indemnities relating to the use, or other operations, of armaments and the presence of armaments on the vessel. It also contains unquantifiable indemnities relating to damage to any property or injury to any person caused by the apprehended or escorted persons or their vessels.

Southern Ocean Maritime Patrol and Response Program

The Australian Government has entered into a contract to provide a Civil Charter Vessel to conduct patrols in the Southern Ocean and northern waters to undertake law enforcement activities in relation to illegal, unregulated and unreported fishing as well as counter people smuggling activities. This agreement will remain in force until 30 June 2014. The Australian Government's contract contains unquantifiable indemnities relating to the use or other operations of armaments and ammunition and the presence of armaments and ammunition on the vessel. It also contains unquantifiable indemnities relating to damage to any property or injury to any person caused by the apprehended or escorted persons or their vessels.

Broadband, Communications and the Digital Economy

NBN Co Limited — Board Members' Insolvency Indemnity

The Australian Government has provided each Director of NBN Co with an indemnity against liability as a result of the Government failing to meet its funding obligations to NBN Co. The liabilities covered by this indemnity would be the same as those covered by the NBN Co Equity Agreement, with the exception of any legal expenses incurred by individual Directors arising from this indemnity. The Directors are also indemnified in relation to claims arising out of their involvement in the negotiation and entry by NBN Co into the Financial Heads of Agreement with Telstra.

Optus Financial Guarantee

The Commonwealth has provided a guarantee to Optus for NBN Co's financial obligations to Optus under the Optus HFC Subscriber Agreement. That Agreement extends for the period of the national broadband network roll out in Optus Hybrid Fibre Coaxial (HFC) areas.

Termination of the funding agreement with OPEL

Following the termination of its agreement with OPEL Network Pty Ltd (OPEL) under the Broadband Connect program, the Commonwealth made provision towards costs incurred by OPEL in producing its Implementation Plan. OPEL was wound up on

13 March 2009. The liquidators of OPEL have indicated that they consider the Australian Government to have a liability with regard to the termination of the funding agreement. As at 31 March 2013, no legal proceedings have been filed.

Defence and Defence Material Organisation

ADI Limited — Officers' and Directors' indemnities

Under the sale agreements for ADI Limited, the Australian Government agreed to indemnify the Directors, officers and employees for claims and legal costs associated with assistance related to the sale of the Australian Government's shares in the company. The Australian Government has provided an indemnity to ADI Limited for uninsured losses relating to specific heads of claims.

Cockatoo Island Dockyard

On 13 October 2001, Cockatoo Island Dockyard (CODOCK) commenced proceedings against the Commonwealth (Defence) in the NSW Supreme Court seeking full reimbursement from the Commonwealth for personal injury claims costs incurred by CODOCK after 31 October 1995 in relation to asbestos exposure. Following decisions in the NSW Supreme Court on 17 December 2004 and 4 February 2005, and the NSW Court of Appeal on 23 November 2006, CODOCK was awarded a complete indemnity from the Commonwealth for its uninsured exposure to asbestos damages claims, plus profit of 7.5 per cent.

Decontamination of Defence sites

Defence has made financial provision for the possible costs involved in restoring, decontaminating and decommissioning Defence sites in Australia where a legal or constructive obligation has arisen. For those decontaminating and decommissioning Defence sites for which there is no legal or constructive obligation, the potential costs have not been assessed and are unquantifiable.

Indemnities and remote contingencies

The Defence Materiel Organisation carries 449 instances of contingencies (including Foreign Military Sales) that are unquantifiable. While these contingencies are considered remote, they have been reported in aggregate for completeness.

Litigation cases

The Department of Defence is involved in a wide range of litigation and other claims for compensation and/or damages that may result in litigation where the matters are not able to be finalised by use of negotiation. The litigation includes common law liability claims, including for injury alleged to have resulted from the F-111 Deseal/Reseal programs. A number of claims have also been received for damage caused by the use of a Defence Practice Area. There is also the potential for a number of claims to arise out of reviews into Australian Defence Force and Defence culture.

Education, Employment and Workplace Relations

Job Services Australia — Employment Pathway Fund

The estimates for the Department of Education, Employment and Workplace Relations Job Services Australia (JSA) program includes the anticipated expenditure for the Employment Pathway Fund (EPF). The EPF provides a flexible pool of funding available to JSA providers to deliver assistance to job seekers to assist in addressing their vocational and non vocational barriers to employment. Amounts are credited to the EPF based on a job seeker's level of disadvantage. Experience with the EPF suggests that all credits will not be used during the life of the JSA contracts. The forward estimates do not include the value of residual credits from the EPF which are not expected to be spent during the current contract period, including from the new Remote Jobs and Communities Program (RJCP) that will commence on 1 July 2013.

Finance and Deregulation

ASC Pty Ltd — Directors' indemnities

The Australian Government has provided former Directors of the Australian Submarine Corporation Pty Ltd (ASC) with indemnities in relation to three matters: for any claim against them as a result of complying with the ASC's obligations under the Process Agreement between the Electric Boat Corporation (EBC), the Australian Government and the ASC; for any claim against them as a result of complying with the ASC's obligations under the Service Level Agreement between the ASC, the Department of Defence, EBC and Electric Boat Australia; and for any claims and legal costs arising from the Directors acting in accordance with the Board's tasks and responsibilities, as defined under the indemnity.

Comcover — insurance claims and reinsurance recoveries

The Department of Finance and Deregulation (Finance) manages Comcover, the Australian Government's general self-insurance fund which provides insurance and risk management services to Australian Government departments and agencies. Finance's liability for outstanding claims includes the expected future cost of claims notified as well as claims incurred but not reported. The provision for claims is subject to inherent uncertainty in the estimation process.

Following the settlement of claims associated with Pan Pharmaceuticals, Finance is now in dispute with its reinsurers regarding the amount recoverable through reinsurance arrangements. Finance has sought legal advice and is pursuing the amount that is considered recoverable.

On 20 April 2007, the High Court of Australia found against the Australian Government on a claim for negligent mis-statement relating to superannuation benefits for a former employee of the then Department of the Interior. Finance is currently managing a cohort of claims that have flowed from that decision. There are currently six matters that were heard concurrently by the ACT Supreme Court where the question of a positive duty to advise is in dispute. If it is found in the reserved decisions that there in fact is such a positive duty on the Commonwealth to inform employees about eligibility for superannuation, this will be taken into account in the handling of claims and may affect the number of claims made.

Commonwealth Superannuation Corporation — immunity and indemnity

The Governance of Australian Government Superannuation Schemes Act 2011 (the Governance Act) provides for specific immunities for activities undertaken in good faith by Directors and delegates of the board of the Commonwealth Superannuation Corporation (CSC), provided these activities relate to the performance of their functions. These immunities do not prevent CSC from being subject to any action, liability, claim or demand. Under the Governance Act, other than in cases where the *Superannuation Industry (Supervision) Act 1993* or regulations under that Act do not so permit, any money that becomes payable by CSC in respect of an action, liability, claim or demand that relates to the superannuation schemes or funds for which it is responsible, is to be paid out of the relevant superannuation fund or if there is no fund, the Consolidated Revenue Fund (CRF). Amounts paid from a superannuation fund are reimbursed to the fund from the CRF.

Contractual Leasing Agreement

An indemnity has been included in the proposed lease of Section 241 (formerly part of Section 34) on the Cox Peninsula in the Northern Territory. The Australian Government has agreed to indemnify the Lessor against any claim to a total of $20 million arising from the negligent or wrongful act in connection with the use of the land.

Future Fund Management Agency and Future Fund Board of Guardians — indemnity

The Australian Government has provided certain staff members of the Future Fund Management Agency (FFMA) and the members of the Future Fund Board of Guardians (Board members) with Deeds of Indemnity. The indemnities are intended to cover liabilities in excess of the insurance policies of the Future Fund Board and its subsidiary entities and the Agency. Board members are indemnified in relation to the exercise of their powers and performance of their functions as members of the Future Fund Board of Guardians. Agency staff members are indemnified in connection with the performance of functions or the exercise of powers in their capacity as a Director or officer of Future Fund Board of Guardians investee companies and/or subsidiaries. Both staff members of the FFMA and Board members are indemnified, to the maximum extent permitted by law.

Agency staff members are not indemnified to the extent they are indemnified by an investee company or a subsidiary or they are paid under a Directors and Officers policy of the investee company or subsidiary or to the extent that they are granted and receive financial assistance under Appendix E of the Legal Services Directions. Both Board members and Agency staff members are not indemnified for conduct they engage in other than in good faith; or in respect of any liability owed to the Board or the Commonwealth; or in respect of any act or omission that contravenes one of the civil penalty provisions of the *Future Fund Act 2006* (the Future Fund Act). Board members and Agency staff are not indemnified for legal costs incurred by them in unsuccessfully defending or resisting criminal proceedings, or proceedings against a declaration that they have breached a civil penalty provision of the Future Fund Act. The indemnity is financially limited, in broad terms, to the value of the funds under management by the Future Fund Board of Guardians.

Googong Dam

On 4 September 2008, a 150 year lease for Googong Dam was signed between the Australian Government and the Australian Capital Territory (ACT) Government. The Australian Government is liable to pay just terms compensation if the terms of the lease are breached by introducing new legislation or changing the *Canberra Water Supply (Googong Dam) Act 1974* in a way that impacts on the rights of the ACT. The lease includes a requirement for the Australian Government to undertake rectification of easements or any defects in title in relation to Googong Dam, and remediation of any contamination it may have caused to the site. It also gives an indemnity in relation to acts or omissions by the Australian Government.

Indemnities for the Reserve Bank of Australia and private sector banks

In accordance with Government entities' contracts for transactional banking services, the Australian Government has indemnified the Reserve Bank of Australia and contracted private sector banks against loss and damage arising from error or fraud by the entity, or transactions made by the bank with the authority of the entity.

Indemnities relating to other former asset sales, privatisations and IT outsourcing projects

Ongoing indemnities have been given in respect of a range of asset sales, privatisations and IT outsourcing projects that have been conducted by the Department of Finance and Deregulation (Finance), and the former Office of Asset Sales and Commercial Support and its predecessors. The probability of an action being made under one of these indemnities diminishes over time. Details of indemnities in respect of the other asset sales and privatisations have been provided in previous Budget and MYEFO papers, and previous annual reports of Finance and the Office of Asset Sales and Commercial Support.

Indemnities (including the year they were raised) are still current for: ADI Ltd (1998), Australian Airlines (1991), Australian Industry Development Corporation (1996), Australian Multimedia Enterprise (1997), Australian National Rail Commission and National Rail Corporation Ltd (1997 and 2000), Australian River Co Ltd (1999), Australian Submarine Corporation Pty Ltd (2000), ComLand Ltd (2004), Bankstown Airport Limited (2002), Camden Airport Ltd (2002), Commonwealth Accommodation and Catering Services (1988), Commonwealth Bank of Australia (1993 to 1996), Commonwealth Funds Management and Total Risk Management (1996 to 1997), Employment National Ltd (2003), Essendon Airport Ltd (2001), Federal Airports

Corporation's Airports (1995 to 1997), Housing Loans Insurance Corporation Ltd (1996), Health Insurance Commission (2000), Hoxton Park Airport Limited (2002), National Transmission Network (1999), Sydney Airports Corporation Ltd (2001), Telstra (1996, 1999 and 2006), and Wool International (1999). Apart from instances noted elsewhere, Finance does not currently expect any other action to be taken in respect of these indemnities.

Litigation — Davis Samuel case

The Australian Government is subject to a counter-claim for damages in relation to legal action before the Australian Capital Territory Supreme Court. The Australian Government is seeking to recover funds which were misappropriated from the Department of Finance and Deregulation during 1998. The counter claim is subject to sufficient uncertainty and it is not possible to quantify the amount, if any, of the liability. The Department is vigorously defending this counter claim. The hearing concluded in September 2008 and judgment is yet to be handed down.

Foreign Affairs and Trade

Export Finance and Insurance Corporation — board member and senior management indemnities

The Australian Government has provided certain indemnities to Export Finance and Insurance Corporation (EFIC) board members and senior management to protect against civil claims and legal expenses for unsuccessful criminal claims relating to the implementation of EFIC's alliance/divestment of its short-term export credit insurance business.

Health and Ageing

Australian Medical Association

An agreement is held between the Australian Medical Association, the Australian Government, the Australian Private Hospitals Association Ltd, the Australian Health Insurance Association and Beyond Blue Ltd for participation in, and support of, the Private Mental Health Alliance and for the collection and analysis of a national minimum data set from private, hospital-based psychiatric services. Each party to the agreement has agreed to indemnify each other in respect of any loss, liability, cost, claim or expense, misuse of confidential information, or breach of the *Privacy Act 1988*. Each party's liability to indemnify the other parties will be reduced proportionally to the extent that any unlawful or negligent act or omission of the other parties or their employees or agents contributed to the loss or damage. The indemnity survives the expiration or termination of the agreement.

Australian Red Cross Society — indemnities

Deeds of Agreement between the Australian Red Cross Society (the Red Cross) and the National Blood Authority in relation to the operation of the Australian Red Cross Blood Service and the development of principal manufacturing sites in Sydney and

Melbourne include certain indemnities and a limitation of liability in favour of the Red Cross. These cover defined sets of potential business, product and employee risks and liabilities. The indemnities and limitation of liability only operate in the event of the expiry and non-renewal, or the earlier termination, of the Deed of Agreement relating to the operation of the Red Cross or the cessation of funding for the principal sites, and only within a certain scope. They are also subject to appropriate limitations and conditions including in relation to mitigation, contributory fault, and the process of handling relevant claims.

Blood and blood products liability cover

A National Managed Fund (NMF) has been established between the Australian Government, the Australian Red Cross Blood Service (the Blood Service) and the State and Territory governments which spreads the liability risks associated with the supply of blood and blood products by the Blood Service. The NMF provides for liabilities incurred by the Blood Service where other available mitigation or cover is not available. Under certain conditions, the Australian Government and the State and Territory governments jointly provide indemnity for the Blood Service through a cost sharing arrangement for claims, both current and potential, regarding personal injury and loss or damage suffered by a recipient of certain blood products. If there are insufficient funds in the NMF to cover claim costs, the Jurisdictional Blood Committee will consider a report provided by the National Funds Manager to determine the level of additional funds required. The Australian Government's share of any additional liability is limited to 63 per cent of any agreed net cost.

CSL Ltd

CSL Ltd (CSL) is indemnified against claims made by individuals who contract specified infections from specified products and against employees contracting asbestos-related injuries. CSL has unlimited cover for most events that occurred before the sale of CSL on 1 January 1994, but has more limited cover for a specified range of events that occurred during the operation of the Plasma Fractionation Agreement from 1 January 1994 to 31 December 2004. Where alternative cover was not arranged by CSL, the Australian Government may have a contingent liability.

The Australian Fractionation Agreement with CSL, which has operated since 1 January 2010, includes a requirement that the National Blood Authority make a defined payment to CSL, in certain circumstances only, in the event that the volume of plasma supplied annually to CSL is less than a specified amount.

Indemnities relating to vaccines

The Australian Government has provided an indemnity to the manufacturer of smallpox vaccine held by the Australian Government, covering possible adverse events that could result from the use of the vaccine in an emergency situation. Further, under certain conditions, certain indemnities have been provided to particular manufacturers of pandemic and pre-pandemic influenza vaccines for the supply or future supply of influenza vaccines (including H1N1 and H5N1).

Medical Indemnity Exceptional Claims Scheme

In May 2003, the Australian Government announced that the Medical Indemnity Exceptional Claims Scheme was to assume liability for 100 per cent of any damages payable against a doctor that exceeds a specified level of cover provided by that doctor's medical indemnity insurer (currently $20 million). These arrangements would apply to payouts either related to a single large claim or to multiple claims that in aggregate exceed the cover provided by the doctor's medical indemnity insurer, and would apply to claims notified under contracts-based cover since 1 January 2003.

Immigration and Citizenship

Education Services to Minors in Alternative Places of Detention — liability limit

South Australia

The Department of Immigration and Citizenship has entered into a formal arrangement with the Government of South Australia (as represented by the South Australian Department of the Premier and Cabinet) by way of an exchange of letters dated 17 December 2010. The letters represent the Government of South Australia's agreement to provide a range of services (such as education, health, police and emergency services) to people in immigration detention in the State of South Australia in advance of signing a Memorandum of Understanding expected within the next six months. This agreement is based on the understanding that the Commonwealth indemnifies the State, and its servants or agents engaged in the provision of the services, to the value of $5 million per claim or event, in relation to any damage or loss incurred by the State, arising out of or incidental to the provision of the services. This effectively represents an uncapped liability.

Immigration detention services — liability limits

The Department of Immigration and Citizenship (DIAC) entered into a contract which commenced on 14 January 2009 with International Health and Medical Services Pty Ltd (IHMS), to deliver health services to people in detention in Australia on behalf of the Australian Government. This contract was varied in 2011-12 to incorporate services on Christmas Island. Under this contract, DIAC has agreed to limit IHMS's liability to DIAC to a maximum of $40 million in any 12 month period; however, IHMS's liability is unlimited for specific events defined under the contract.

DIAC entered into a contract with Serco Pty Ltd, which commenced on 29 June 2009, to deliver immigration detention services in Australia on behalf of the Australian Government at immigration detention centres. In this contract, DIAC has agreed to limit Serco's liability to DIAC to a maximum of any insurance proceeds recovered by Serco and $75 million. Serco's liability is unlimited for specific events defined under the contract.

DIAC also entered into a separate contract with Serco, which commenced on 11 December 2009, to deliver immigration detention services in Australia on behalf of the Australian Government at immigration residential housing, immigration transit accommodation and alternative places of detention. In this contract, DIAC has agreed to limit Serco's liability to DIAC to a maximum of any insurance proceeds recovered by Serco and $17 million. Serco's liability is unlimited for specific events defined under the contract.

Regional Processing Centres — liability limit

The Department of Immigration and Citizenship (DIAC) has entered into a contract with the Salvation Army, which commenced on 1 February 2013. Under the contract, the Salvation Army is to provide care and support services on behalf of the Australian Government at Regional Processing Centres (RPCs) located in Manus Island, PNG and the Republic of Nauru. DIAC has agreed to limit the Salvation Army's liability to 50 per cent of the Service Fee paid or payable under the Agreement over the Term of the contract. The Salvation Army's liability is unlimited for specific events defined under the contract.

DIAC also entered into a contract with International Health Medical Services (IHMSs) for the provision of health services to people transferred to RPCs on Nauru and Manus Island. Under this contract, IHMSs liability is limited to $40 million for the Nauru RPC and $38 million for the Manus Island RPC in any 12 month period; however, IHMSs liability is unlimited for specific events defined under the contract.

DIAC entered into a separate contract with Transfield Services (Australia) Pty Limited (Transfield), which commenced on 1 February 2013, to provide operational and maintenance services on the Republic of Nauru on behalf of the Australian Government at RPCs. In this contract, DIAC has agreed to limit Transfield's liability to DIAC to a maximum of $20 million for any single occurrence and a maximum of $35 million in aggregate. Transfield's liability is unlimited for specific events defined under the contract.

DIAC also entered into a separate contract with G4S Australia Pty Limited (G4S), which commenced on 10 October 2012, to provide operational and maintenance services on Manus Island, Papua New Guinea on behalf of the Australian Government at the RPC. In this contract, DIAC has agreed to limit G4S's liability to DIAC to a maximum of $20 million for any single occurrence. G4S's liability is unlimited for specific events defined under the contract.

Industry, Innovation, Climate Change, Science, Research and Tertiary Education

Australian Nuclear Science and Technology Organisation — indemnity

The Australian Government has indemnified the Australian Nuclear Science and Technology Organisation and its officers from any liability that might be incurred from the conduct of activities authorised under the *Australian Nuclear Science and Technology Organisation Act 1987*. This indemnity is in addition to commercial insurance cover obtained from the Comcover Insurance Pool and other insurers.

Kyoto Protocol — emissions target

As a party to the Kyoto Protocol, Australia is required to meet its target level for emissions over the first Commitment Period, 2008-2012. According to the latest projections of emissions over the Commitment Period, Australia is on track to more than meet its 2008-2012 target. Estimates of the likely net balance and value of these permits will be determined when the final reconciliation of Australia's emissions against its commitments is completed in 2015.

Liability for damages caused by space activities

Under the United Nations Convention on International Liability for Damage Caused by Space Objects, the Australian Government is liable to pay compensation for damage caused to nationals of other countries by space objects launched from, or by, Australia. The Government requires the responsible party for a space activity approved under the *Space Activities Act 1998* (the Act) to insure against liability for damage to third parties for an amount not less than the maximum probable loss, up to a maximum of $750 million indexed for inflation. Under the Act, the Government also accepts liability for damage suffered by Australian nationals, to a maximum value of $3 billion above the insured level.

Infrastructure and Transport

Australian Maritime Safety Authority incident costs

In the normal course of operations, the Australian Maritime Safety Authority is responsible for the provision of funds necessary to meet the clean-up costs arising from ship-sourced marine pollution and, in all circumstances, is responsible for making appropriate efforts to recover the costs of any such incidents. The Australian Government meets costs that cannot be recovered from such incidents. It is not possible to estimate the amounts of any eventual payments that may be required in relation to these incident costs. The Australian Maritime Safety Authority has established a pollution response reserve of $10 million supported by a commercial line of credit of $40 million to provide funding should the overall clean-up costs exceed the liability limit of the ship owner.

Maritime Industry Finance Company Limited — board members' indemnity

Indemnities for Maritime Industry Finance Company Limited (MIFCO) board members were provided to protect them against civil claims relating to their employment and conduct as Directors. MIFCO was placed into voluntary liquidation on November 2006 and was deregistered on 24 April 2008. The indemnity is not time limited and continues even though the company has been liquidated. Until the indemnity agreements are varied or brought to an end, they will remain as contingent and unquantifiable liabilities.

Tripartite deeds relating to the sale of federal leased airports

Tripartite deeds relate to applicable federal leased airports. The tripartite deeds between the Australian Government, the airport lessee company and financiers amend the airport (head) leases to provide for limited step-in-rights for financiers in circumstances where the Commonwealth terminates the head lease to enable the financiers to correct the circumstances that triggered such a termination event. The tripartite deeds may require the Commonwealth to pay financiers compensation as a result of its termination of the (head) lease. The Commonwealth's contingent liabilities are considered to be unquantifiable and remote.

Resources, Energy and Tourism

British atomic test site at Maralinga

The Australian Government is responsible for 14 unlimited indemnities relating to the Maralinga Rehabilitation Project (1995-2000). In November 2009, the Australian Government agreed to the handback of the former nuclear test site at Maralinga to the Maralinga Tjarutja people. Under the terms of the handback, the Australian Government has indemnified the Maralinga Tjarutja people and the South Australian Government in respect of claims arising from test site contamination.

Gorgon liquefied natural gas and carbon dioxide storage project — long-term liability

The Australian and Western Australian governments have agreed to provide an indemnity to the Gorgon Joint Venture Partners (GJV) to indemnify the GJV against independent third-party claims (relating to stored carbon dioxide) under common law following closure of the carbon dioxide sequestration project, and subject to conditions equivalent to those set out in the *Offshore Petroleum and Greenhouse Gas Storage Act 2006*. It is proposed that the Western Australian Government will indemnify the GJV, and that the Australian Government will indemnify the Western Australian Government for 80 per cent of any amount determined to be payable under that indemnity. The formal agreement between the Australian and Western Australian governments in relation to the indemnity is expected to be signed in 2013.

Liability for costs incurred in a national liquid fuel emergency

The Australian Government has responsibility for the *Liquid Fuel Emergency Act 1984* (the Act) which is administered by the Minister for Resources and Energy. In addition, the State and Territory governments have entered into an inter-governmental agreement (IGA) which coordinates the use of the powers under the Act in a national liquid fuel emergency. The IGA contains three areas where the Australian Government may incur expenses in the unlikely event of a national liquid fuel emergency. These relate to the direct costs of managing a liquid fuel emergency and include the possibility of the Australian Government reimbursing the State and Territory governments for costs arising from their responses, and potential compensation for industry arising from Australian Government directions under the Act.

Snowy Hydro Limited — Directors' indemnities

The Australian Government, together with the co-shareholder governments of New South Wales and Victoria, has indemnified the members of the Board of Snowy Hydro Limited for liabilities arising from entering into agreements to implement corporatisation of the Snowy Mountains Hydro Electric Scheme, and from liabilities to Snowy Hydro Limited at corporatisation. The indemnity applies to liabilities arising within five years of corporatisation, and for which a claim is notified to the governments within 11 years of the corporatisation date of 28 June 2002.

Snowy Hydro Limited — water releases

The Australian, New South Wales and Victorian governments have indemnified Snowy Hydro Limited for liabilities arising from water releases in the Snowy River below Jindabyne Dam, where these releases are in accordance with the water licence and related regulatory arrangements agreed between the three governments. The indemnity applies to liabilities for which a claim is notified within 20 years from 28 June 2002.

Sustainability, Environment, Water, Population and Communities

End of lease at the former National Halon Bank site, Braybrook, Victoria

The Department of Sustainability, Environment, Water, Population and Communities has detected some contamination at the former site of the National Halon Bank in Braybrook, Victoria, which was leased to the Commonwealth. Investigations are continuing into the cause, source and timing of the contamination. Once these investigations have been completed, the extent of any potential soil and groundwater remediation costs for the parties involved, including the Commonwealth, will be clearer.

Murray-Darling Basin Reform — additional net costs

Under the 3 July 2008 *Intergovernmental Agreement on Murray-Darling Basin Reform*, the Australian Government agreed that the governments of New South Wales, Victoria, Queensland, South Australia and the Australian Capital Territory will not bear additional net costs as a consequence of the reforms agreed between the parties and implementation of the *Water Act 2007*. This undertaking ceases on 30 June 2015.

Treasury

Australian Taxation Office — Constitutional challenge to the Minerals Resource Rent Tax

On 22 June 2012, Fortescue Metals Group Ltd and related companies filed an action in the High Court challenging the constitutional validity of the Australian Government's Minerals Resource Rent Tax (MRRT). The MRRT, which commenced operation on 1 July 2012, applies an economic rent tax to the extraction of Australian coal and iron ore. The Commonwealth defence was filed on 12 September 2012, and the case was heard by the High Court in March 2013. The High Court is expected to deliver its judgement in the latter half of 2013.

Financial Claims Scheme

The Financial Claims Scheme provides depositors of authorised deposit taking institutions (ADIs) and policyholders of general insurers (GIs) with timely access to their funds in the event of a financial institution failure.

The Australian Prudential Regulation Authority (APRA) is responsible for the administration of the Financial Claims Scheme. Under the Financial Claims Scheme any payments to eligible depositors or policyholders will be made out of APRA's Financial Claims Scheme Special Account.

The Financial Claims Scheme established under the *Banking Act 1959* provides a mechanism for making payments to depositors under the Government's guarantee of deposits in ADIs. Payments are capped at $250,000 per account holder per ADI. As at 28 February 2013, deposits eligible for coverage under the Financial Claims Scheme were estimated to be approximately $696.9 billion, compared to $646.5 billion at 31 August 2012, reflecting an increase in eligible deposits held.

The Financial Claims Scheme established under the *Insurance Act 1973* provides a mechanism for making payments to eligible beneficiaries with a valid claim against a failed general insurer.

In the very unlikely event of a failure, any payments made under the Financial Claims Scheme would be recovered through the liquidation of the failed institution. In the even more unlikely event there was a shortfall in the amount recovered, a levy would be applied to industry to recover the difference between the amount expended and the amount recovered in the liquidation. Initial amounts available to meet payments and administer the Financial Claims Scheme, in the event of activation, are $20.1 billion per institution, under the legislation.

Guarantee of State and Territory Borrowing

The Australian Government announced on 25 March 2009 that a voluntary, temporary guarantee would be put in place over State and Territory borrowing. The Guarantee of State and Territory Borrowing commenced on 24 July 2009 and closed on 31 December 2010.

Securities covered by the guarantee will continue to be guaranteed until these securities either mature or are bought back and extinguished by the issuer.

The expected liability under the guarantee is remote and unquantifiable. Australian Government expenditure would arise under the guarantee only in the unlikely event that a State or Territory failed to meet its obligations with respect to a commitment that was subject to the guarantee and the guarantee was called upon. In such a case, the Government would likely be able to recover any such expenditure through a claim on the relevant State or Territory at a future date. The impact on the Government's budget would depend upon the extent of the default and the State or Territory's ability to meet the Government’s claim.

As at 31 March 2013, the face value of State and Territory borrowings covered by the guarantee was $27.3 billion, down from $31.7 billion at 31 July 2012.

Guarantee Scheme for Large Deposits and Wholesale Funding

The Australian Government announced the guarantee of eligible deposits and wholesale funding for authorised deposit-taking institutions from 12 October 2008 under the Guarantee Scheme for Large Deposits and Wholesale Funding.

On 7 February 2010, the Government announced that the Guarantee Scheme would close to new liabilities on 31 March 2010. Since 31 March 2010, Australian authorised deposit taking institutions have been prohibited from issuing any new guaranteed wholesale funding or accepting new guaranteed deposits above $1 million. Existing guaranteed wholesale funding is guaranteed to maturity. Depositors who covered their balances above $1 million under the Guarantee Scheme can have those funds covered to maturity for term deposits up to five years, or until October 2015 for at call deposits.

The expected liability under the Guarantee Scheme is remote and unquantifiable. Government expenditure would arise under the guarantee only in the unlikely event that an institution failed to meet its obligations with respect to a commitment that was subject to the guarantee and the guarantee was called upon. In such a case, the Government would likely be able to recover any such expenditure through a claim on the relevant institution. The impact on the Government’s budget would depend on the extent of the institution's default and its ability to meet the Government's claim.

As at 31 March 2013, total liabilities covered by the Guarantee Scheme were estimated at $55.2 billion, down from $86.4 billion at 31 August 2012. This is made up of $2.8 billion (down from $3 billion) of large deposits and $52.4 billion (down from $83.4 billion) of long-term wholesale funding. All guaranteed short-term wholesale funding matured in March 2011.

As at 28 February 2013, institutions participating in the Guarantee Scheme had paid fees of $4.1 billion since its inception.

Terrorism insurance — commercial cover

The *Terrorism Insurance Act 2003* established a scheme for terrorism insurance covering damage to commercial property, including associated business interruption and public liability. The Australian Reinsurance Pool Corporation (ARPC) uses reinsurance premiums paid by insurers to meet its administrative expenses and to build a fund and purchase reinsurance to help meet future claims. The Australian Government guarantees to pay any liabilities of the ARPC, but the Treasurer must declare a reduced payout rate to insured entities if the Government's liability would otherwise exceed $10 billion.

CONTINGENT ASSETS — UNQUANTIFIABLE

Health and Ageing

Legal action seeking compensation from Sanofi-Aventis

The Department of Health and Ageing has initiated legal action to seek compensation from Sanofi-Aventis, the original patent owner of clopidogrel (Plavix®), for additional costs to the Pharmaceutical Benefits Scheme (PBS) resulting from a delay in listing a generic version of clopidogrel. Listing a generic form of clopidogrel on the Australian market in 2008 would have triggered an automatic reduction to the price paid by the Government for clopidogrel through the PBS and is likely to have resulted in a Price Disclosure reduction in 2010. The first generic version of this medicine was listed in 2010 and the first Price Disclosure reduction occurred in 2012.

Legal action seeking compensation from Wyeth

The Department of Health and Ageing has initiated legal action to seek compensation from Wyeth, the original patent owner of venlafaxine (Efexor®), for additional costs to the Pharmaceutical Benefits Scheme (PBS) resulting from a delay in listing a generic version of venlafaxine. Listing a generic form of venlafaxine on the Australian market in 2009 would have triggered an automatic reduction to the price paid by the Government for venlafaxine through the PBS. The first generic version of this medicine was listed in 2012.

Industry, Innovation, Climate Change, Science, Research and Tertiary Education

Wireless Local Area Network

The Commonwealth Scientific and Industrial Research Organisation (CSIRO) is continuing legal proceedings in relation to CSIRO owned wireless local area patent in the United States of America. Previous settlement agreements made in 2009 and 2012 are at various phases. CSIRO expects to receive additional revenue which would exceed the associated legal costs. At this stage, the revenue and costs are unquantifiable.

Statement 9: Australian Government Budget Financial Statements

The budget financial statements consist of an operating statement, including other economic flows, a balance sheet, and a cash flow statement for the Australian Government general government sector (GGS), the public non-financial corporations (PNFC) sector and the total non-financial public sector (NFPS). This statement also contains notes showing disaggregated information for the GGS.

The *Charter of Budget Honesty Act 1998* (the Charter) requires that the budget be based on external reporting standards and for departures from these standards to be disclosed.

The Government has produced a single set of financial statements that comply with both Australian Bureau of Statistics' (ABS) accrual Government Finance Statistics (GFS) and Australian Accounting Standards (AAS), meeting the requirement of the Charter, with departures disclosed. The financial statements reflect the Government's accounting policy that ABS GFS remains the basis of budget accounting policy, except where the Government applies AAS because it provides a better conceptual basis for presenting information of relevance to users of public sector financial reports.

The Australian, State and Territory governments have an agreed framework — the Uniform Presentation Framework (UPF) — for the presentation of government financial information on a basis broadly consistent with the Australian Accounting Standards Board standard AASB 1049. The budget financial statements are consistent with the requirements of the UPF.

In accordance with the UPF requirements, this statement also contains an update of the Australian Government's Loan Council Allocation.

CONTENTS

STATEMENT 9: AUSTRALIAN GOVERNMENT BUDGET FINANCIAL STATEMENTS

Table 1: Australian Government general government sector operating statement

		Estimates			Projections	
		2012-13	2013-14	2014-15	2015-16	2016-17
	Note	$m	$m	$m	$m	$m
Revenue						
Taxation revenue	3	338,727	366,664	390,606	415,974	445,595
Sales of goods and services	4	8,757	8,577	8,443	8,614	8,776
Interest income	5	3,764	4,313	4,477	4,980	5,448
Dividend income	5	2,429	2,426	2,265	2,476	2,604
Other	6	6,284	5,768	5,820	6,052	6,146
Total revenue		**359,961**	**387,749**	**411,612**	**438,097**	**468,569**
Expenses						
Gross operating expenses						
Wages and salaries(a)	7	19,355	19,772	19,800	20,556	21,059
Superannuation	7	8,102	4,039	4,040	4,090	4,196
Depreciation and amortisation	8	6,022	5,813	6,058	6,312	6,480
Supply of goods and services	9	72,019	75,918	78,414	83,298	86,816
Other operating expenses(a)	7	5,411	5,467	5,686	5,893	6,214
Total gross operating expenses		*110,910*	*111,009*	*113,997*	*120,149*	*124,765*
Superannuation interest expense	7	6,778	8,462	8,773	9,093	9,423
Interest expenses	10	13,281	14,008	14,289	14,423	14,173
Current transfers						
Current grants	11	109,950	118,137	125,111	130,239	138,621
Subsidy expenses		13,201	14,944	15,358	13,758	15,453
Personal benefits	12	117,397	121,699	128,484	134,528	144,329
Total current transfers		*240,548*	*254,780*	*268,953*	*278,525*	*298,403*
Capital transfers	11					
Mutually agreed write-downs		1,997	2,137	2,277	2,453	2,633
Other capital grants		7,926	7,905	7,373	6,372	5,350
Total capital transfers		*9,923*	*10,042*	*9,650*	*8,824*	*7,983*
Total expenses		**381,439**	**398,301**	**415,663**	**431,015**	**454,747**
Net operating balance		**-21,478**	**-10,552**	**-4,051**	**7,082**	**13,822**
Other economic flows - included in operating result(b)						
Net write-downs of assets (including bad and doubtful debts)		-7,092	-7,488	-6,540	-7,807	-8,584
Assets recognised for the first time		535	559	585	611	639
Liabilities recognised for the first time		0	0	0	0	0
Actuarial revaluations		-798	0	0	0	0
Net foreign exchange gains		82	73	100	55	7
Net swap interest received		256	0	0	0	0
Market valuation of debt		3,467	2,924	2,370	1,868	1,549
Other gains/(losses)		12,709	3,655	4,699	5,565	3,407
Total other economic flows - included in operating result		**9,159**	**-278**	**1,216**	**293**	**-2,983**
Operating result(c)		**-12,319**	**-10,830**	**-2,835**	**7,374**	**10,840**
Non-owner movements in equity(b)						
Revaluation of equity investments		-2,201	-2,223	0	0	0
Actuarial revaluations		-745	140	181	218	252
Other economic revaluations		661	567	252	86	1,121
Total other economic flows - included in equity		**-2,284**	**-1,517**	**434**	**304**	**1,373**
Comprehensive result - Total change in net worth		**-14,604**	**-12,347**	**-2,402**	**7,678**	**12,213**
Net operating balance		**-21,478**	**-10,552**	**-4,051**	**7,082**	**13,822**

Table 1: Australian Government general government sector operating statement (continued)

		Estimates			Projections	
		2012-13	2013-14	2014-15	2015-16	2016-17
	Note	$m	$m	$m	$m	$m
Net acquisition of non-financial assets						
Purchases of non-financial assets		7,528	8,755	8,613	9,908	9,411
less Sales of non-financial assets		3,661	346	1,156	1,686	220
less Depreciation		6,022	5,813	6,058	6,312	6,480
plus Change in inventories		371	270	233	320	366
plus Other movements in non-financial assets		573	78	573	-1,104	-74
Total net acquisition of non-financial assets		**-1,212**	**2,945**	**2,204**	**1,126**	**3,003**
Fiscal balance (Net lending/borrowing)(d)		**-20,266**	**-13,497**	**-6,255**	**5,955**	**10,819**

(a) Consistent with ABS GFS classification, other employee related expenses are reported under other operating expenses. Total employee expenses equal wages and salaries plus other operating expenses.
(b) The presentation of other economic flows has changed to align more closely with AASB 1049. The AASB 1049 version of other economic flows previously published as Note 13 is no longer presented.
(c) Operating result under AEIFRS accounting standards.
(d) The term fiscal balance is not used by the ABS.

Table 2: Australian Government general government sector balance sheet

		Estimates			Projections	
		2012-13	2013-14	2014-15	2015-16	2016-17
	Note	$m	$m	$m	$m	$m
Assets						
Financial assets						
Cash and deposits	19(a)	2,470	2,679	3,085	3,630	3,877
Advances paid	13	35,409	41,017	47,452	54,008	61,975
Investments, loans and placements	14	103,278	112,965	116,226	120,520	131,325
Other receivables	13	44,464	46,756	49,310	52,111	58,880
Equity investments						
Investments in other public sector entities		22,803	26,208	32,845	38,553	43,600
Equity accounted investments		330	331	334	337	340
Investments - shares		33,431	34,026	36,782	39,664	43,046
Total financial assets		*242,184*	*263,982*	*286,035*	*308,824*	*343,044*
Non-financial assets	15					
Land		8,680	8,719	8,663	8,634	8,602
Buildings		23,433	24,454	24,613	25,592	25,784
Plant, equipment and infrastructure		53,705	54,888	56,776	58,825	60,805
Inventories		7,317	7,206	7,039	6,966	6,920
Intangibles		5,602	5,712	5,719	5,788	5,948
Investment property		182	182	182	182	182
Biological assets		37	37	37	37	37
Heritage and cultural assets		10,451	10,465	10,477	10,488	10,501
Assets held for sale		83	83	121	83	83
Other non-financial assets		795	873	1,446	342	268
Total non-financial assets		*110,284*	*112,619*	*115,073*	*116,937*	*119,130*
Total assets		**352,469**	**376,601**	**401,108**	**425,761**	**462,174**
Liabilities						
Interest bearing liabilities						
Deposits held		192	192	192	192	192
Government securities		292,845	321,252	345,421	356,674	370,335
Loans	16	8,588	11,851	11,347	11,161	11,088
Other borrowing		1,134	1,470	1,354	1,303	1,224
Total interest bearing liabilities		*302,760*	*334,765*	*358,314*	*369,330*	*382,839*
Provisions and payables						
Superannuation liability	17	143,509	148,710	154,001	159,356	164,806
Other employee liabilities	17	14,600	14,829	14,984	14,974	15,391
Suppliers payable	18	4,264	4,259	4,320	4,380	4,340
Personal benefits provisions and payable	18	14,240	13,952	14,273	14,585	15,071
Subsidies provisions and payable	18	3,216	3,475	3,460	3,845	5,092
Grants provisions and payable	18	17,030	15,892	13,162	11,942	12,555
Other provisions and payables	18	13,961	14,178	14,454	15,531	18,049
Total provisions and payables		*210,820*	*215,294*	*218,654*	*224,613*	*235,305*
Total liabilities		**513,580**	**550,059**	**576,968**	**593,943**	**618,144**
Net worth(a)		**-161,112**	**-173,458**	**-175,860**	**-168,182**	**-155,969**
Net financial worth(b)		*-271,396*	*-286,077*	*-290,933*	*-285,119*	*-275,099*
Net financial liabilities(c)		*294,198*	*312,285*	*323,779*	*323,673*	*318,700*
Net debt(d)		*161,603*	*178,104*	*191,552*	*191,172*	*185,662*

(a) Net worth is calculated as total assets minus total liabilities.
(b) Net financial worth equals total financial assets minus total liabilities.
(c) Net financial liabilities equals total liabilities less financial assets other than investments in other public sector entities.
(d) Net debt equals the sum of deposits held, government securities, loans and other borrowing, minus the sum of cash and deposits, advances paid and investments, loans and placements.

Table 3: Australian Government general government sector cash flow statement[(a)]

	Estimates			Projections	
	2012-13	2013-14	2014-15	2015-16	2016-17
	$m	$m	$m	$m	$m
Cash receipts from operating activities					
Taxes received	326,297	354,854	377,751	405,809	431,494
Receipts from sales of goods and services	9,043	8,639	8,409	8,562	8,726
Interest receipts	3,674	4,074	4,055	4,575	4,837
Dividends and income tax equivalents	3,186	2,526	2,317	2,520	2,571
Other receipts	6,574	5,496	5,518	5,778	5,795
Total operating receipts	**348,773**	**375,589**	**398,050**	**427,245**	**453,423**
Cash payments for operating activities					
Payments for employees	-26,156	-26,909	-27,116	-28,357	-28,947
Payments for goods and services	-72,855	-76,293	-78,496	-83,534	-87,006
Grants and subsidies paid	-126,872	-139,740	-147,934	-149,752	-156,210
Interest paid	-11,912	-11,909	-12,460	-14,328	-12,563
Personal benefit payments	-116,257	-122,319	-128,470	-134,549	-143,991
Other payments	-5,288	-5,271	-5,560	-5,727	-5,776
Total operating payments	**-359,339**	**-382,442**	**-400,037**	**-416,247**	**-434,493**
Net cash flows from operating activities	**-10,566**	**-6,853**	**-1,986**	**10,999**	**18,930**
Cash flows from investments in non-financial assets					
Sales of non-financial assets	1,637	405	3,121	1,686	220
Purchases of non-financial assets	-7,542	-8,288	-9,112	-8,723	-9,255
Net cash flows from investments in non-financial assets	**-5,905**	**-7,883**	**-5,992**	**-7,037**	**-9,036**
Net cash flows from investments in financial assets for policy purposes	**-5,288**	**-10,073**	**-13,061**	**-12,595**	**-13,171**
Cash flows from investments in financial assets for liquidity purposes					
Increase in investments	-3,733	-4,919	-3,959	-4,445	-10,587
Net cash flows from investments in financial assets for liquidity purposes	**-3,733**	**-4,919**	**-3,959**	**-4,445**	**-10,587**
Cash receipts from financing activities					
Borrowing	27,022	31,996	27,804	16,132	17,333
Other financing	0	0	0	0	0
Total cash receipts from financing activities	**27,022**	**31,996**	**27,804**	**16,132**	**17,333**
Cash payments for financing activities					
Borrowing	0	0	0	0	0
Other financing	-1,583	-2,059	-2,400	-2,509	-3,223
Total cash payments for financing activities	**-1,583**	**-2,059**	**-2,400**	**-2,509**	**-3,223**
Net cash flows from financing activities	**25,439**	**29,937**	**25,404**	**13,624**	**14,110**
Net increase/(decrease) in cash held	**-54**	**209**	**406**	**545**	**247**

Table 3: Australian Government general government sector cash flow statement (continued)[(a)]

	Estimates			Projections	
	2012-13	2013-14	2014-15	2015-16	2016-17
	$m	$m	$m	$m	$m
Net cash flows from operating activities and investments in non-financial assets (Surplus(+)/deficit(-))	**-16,471**	**-14,736**	**-7,978**	**3,962**	**9,894**
Finance leases and similar arrangements(b)	-404	-469	0	0	0
GFS cash surplus(+)/deficit(-)	**-16,876**	**-15,205**	**-7,978**	**3,962**	**9,894**
less Net Future Fund earnings	2,501	2,838	2,910	3,112	3,304
Equals underlying cash balance(c)	**-19,377**	**-18,043**	**-10,888**	**849**	**6,591**
plus Net cash flows from investments in financial assets for policy purposes	-5,288	-10,073	-13,061	-12,595	-13,171
plus Net Future Fund earnings	2,501	2,838	2,910	3,112	3,304
Equals headline cash balance	**-22,163**	**-25,278**	**-21,039**	**-8,633**	**-3,276**

(a) A positive number denotes a cash inflow; a negative number denotes a cash outflow.
(b) The acquisition of assets under finance leases decreases the underlying cash balance. The disposal of assets previously held under finance leases increases the underlying cash balance.
(c) The term underlying cash balance is not used by the ABS.

Table 4: Australian Government public non-financial corporations sector operating statement

	Estimates	
	2012-13	2013-14
	$m	$m
Revenue		
Current grants and subsidies	28	26
Sales of goods and services	8,951	9,878
Interest income	75	68
Other	1	0
Total revenue	**9,055**	**9,973**
Expenses		
Gross operating expenses		
Wages and salaries(a)	3,378	3,978
Superannuation	275	470
Depreciation and amortisation	714	1,193
Supply of goods and services	4,403	4,912
Other operating expenses(a)	472	543
Total gross operating expenses	*9,241*	*11,096*
Interest expenses	168	316
Other property expenses	284	206
Current transfers		
Tax expenses	135	59
Total current transfers	*135*	*59*
Total expenses	**9,828**	**11,677**
Net operating balance	**-773**	**-1,704**
Other economic flows	**-540**	**111**
Comprehensive result - Total change in net worth excluding contribution from owners	**-1,314**	**-1,593**
Net acquisition of non-financial assets		
Purchases of non-financial assets	2,485	4,448
less Sales of non-financial assets	33	87
less Depreciation	714	1,193
plus Change in inventories	15	0
plus Other movements in non-financial assets	617	346
Total net acquisition of non-financial assets	**2,370**	**3,514**
Fiscal balance (Net lending/borrowing)(b)	**-3,143**	**-5,218**

(a) Consistent with ABS GFS classification, other employee related expenses are reported under other operating expenses. Total employee expenses equal wages and salaries plus other operating expenses.
(b) The term fiscal balance is not used by the ABS.

Table 5: Australian Government public non-financial corporations sector balance sheet

	Estimates	
	2012-13	2013-14
	$m	$m
Assets		
Financial assets		
Cash and deposits	1,409	1,624
Investments, loans and placements	98	85
Other receivables	1,869	2,003
Equity investments	11	11
Total financial assets	*3,386*	*3,722*
Non-financial assets		
Land and fixed assets	12,553	17,845
Other non-financial assets(a)	1,629	1,953
Total non-financial assets	*14,182*	*19,798*
Total assets	**17,568**	**23,520**
Liabilities		
Interest bearing liabilities		
Borrowing	3,694	6,096
Total interest bearing liabilities	*3,694*	*6,096*
Provisions and payables		
Other employee liabilities	1,795	1,680
Other provisions and payables(a)	2,462	2,599
Total provisions and payables	*4,257*	*4,279*
Total liabilities	**7,951**	**10,375**
Shares and other contributed capital	**9,617**	**13,145**
Net worth(b)	**9,617**	**13,145**
Net financial worth(c)	*-4,565*	*-6,653*
Net debt(d)	*2,187*	*4,388*

(a) Excludes the impact of commercial taxation adjustments.
(b) Under AASB 1049, net worth is calculated as total assets minus total liabilities. Under ABS GFS, net worth is calculated as total assets minus total liabilities minus shares and other contributed capital. The AASB 1049 method is used in this table.
(c) Under AASB 1049, net financial worth equals total financial assets minus total liabilities. Under ABS GFS, net financial worth equals total financial assets minus total liabilities minus shares and other contributed capital. The AASB 1049 method is used in this table.
(d) Net debt equals the sum of interest bearing liabilities (deposits held, advances received and borrowing), minus the sum of cash and deposits and investments, loans and placements.

Table 6: Australian Government public non-financial corporations sector cash flow statement(a)

	Estimates	
	2012-13	2013-14
	$m	$m
Cash receipts from operating activities		
Receipts from sales of goods and services	9,901	10,414
GST input credit receipts	235	233
Other receipts	77	71
Total operating receipts	**10,213**	**10,718**
Cash payments for operating activities		
Payments to employees	-4,040	-4,434
Payment for goods and services	-5,053	-5,564
Interest paid	-60	-70
GST payments to taxation authority	-501	-513
Other payments	-93	-112
Total operating payments	**-9,746**	**-10,694**
Net cash flows from operating activities	**467**	**24**
Cash flows from investments in non-financial assets		
Sales of non-financial assets	34	87
Purchases of non-financial assets	-3,099	-4,781
Net cash flows from investments in non-financial assets	**-3,065**	**-4,694**
Cash flows from investments in financial assets for liquidity purposes		
Increase in investments	-1,044	-105
Net cash flows from investments in financial assets for liquidity purposes	**-1,044**	**-105**
Net cash flows from financing activities		
Borrowing (net)	462	97
Other financing (net)	2,913	5,086
Distributions paid (net)	-294	-192
Net cash flows from financing activities	**3,081**	**4,990**
Net increase/(decrease) in cash held	**-424**	**215**
Cash at the beginning of the year	**1,832**	**1,409**
Cash at the end of the year	**1,409**	**1,624**
Net cash from operating activities and investments in non-financial assets	**-2,599**	**-4,670**
Distributions paid	-294	-192
Equals surplus(+)/deficit(-)	**-2,892**	**-4,862**
Finance leases and similar arrangements(b)	0	0
GFS cash surplus(+)/deficit(-)	**-2,892**	**-4,862**

(a) A positive number denotes a cash inflow; a negative number denotes a cash outflow.
(b) The acquisition of assets under finance leases decreases the surplus or increases the deficit. The disposal of assets previously held under finance leases increases the surplus or decreases the deficit.

Table 7: Australian Government total non-financial public sector operating statement

	Estimates	
	2012-13	2013-14
	$m	$m
Revenue		
Taxation revenue	338,591	366,605
Sales of goods and services	16,391	17,261
Interest income	3,820	4,350
Dividend income	2,146	2,221
Other	6,285	5,769
Total revenue	**367,233**	**396,205**
Expenses		
Gross operating expenses		
Wages and salaries(a)	22,733	23,750
Superannuation	8,377	4,510
Depreciation and amortisation	6,736	7,006
Supply of goods and services	75,105	79,635
Other operating expenses(a)	5,883	6,010
Total gross operating expenses	*118,834*	*120,911*
Superannuation interest expense	6,778	8,462
Interest expenses	13,428	14,293
Current transfers		
Current grants	109,950	118,137
Subsidy expenses	13,174	14,918
Personal benefits	117,397	121,699
Total current transfers	*240,521*	*254,754*
Capital transfers	9,923	10,042
Total expenses	**389,484**	**408,462**
Net operating balance	**-22,251**	**-12,256**
Other economic flows	**7,485**	**102**
Comprehensive result - Total change in net worth	**-14,766**	**-12,154**
Net acquisition of non-financial assets		
Purchases of non-financial assets	10,013	13,203
less Sales of non-financial assets	3,694	433
less Depreciation	6,736	7,006
plus Change in inventories	386	270
plus Other movements in non-financial assets	1,190	425
Total net acquisition of non-financial assets	**1,158**	**6,459**
Fiscal balance (Net lending/borrowing)(b)	**-23,409**	**-18,716**

(a) Consistent with ABS GFS classification, other employee related expenses are reported under other operating expenses. Total employee expenses equal wages and salaries plus other operating expenses.
(b) The term fiscal balance is not used by the ABS.

Table 8: Australian Government total non-financial public sector balance sheet

	Estimates	
	2012-13	2013-14
	$m	$m
Assets		
Financial assets		
Cash and deposits	3,879	4,303
Advances paid	35,409	41,017
Investments, loans and placements	103,092	112,765
Other receivables	46,206	48,634
Equity investments	44,622	45,287
Total financial assets	*233,207*	*252,007*
Non-financial assets		
Land and fixed assets	116,139	123,577
Other non-financial assets	8,327	8,840
Total non-financial assets	*124,466*	*132,417*
Total assets	**357,673**	**384,424**
Liabilities		
Interest bearing liabilities		
Deposits held	192	192
Government securities	292,845	321,252
Loans	8,304	11,567
Other borrowing	4,828	7,566
Total interest bearing liabilities	*306,170*	*340,577*
Provisions and payables		
Superannuation liability	143,509	148,710
Other employee liabilities	16,395	16,509
Other provisions and payables	55,047	54,230
Total provisions and payables	*214,951*	*219,449*
Total liabilities	**521,121**	**560,026**
Shares and other contributed capital	**9,617**	**13,145**
Net worth(a)	**-163,448**	**-175,602**
Net financial worth(b)	*-287,913*	*-308,019*
Net debt(c)	*163,790*	*182,492*

(a) Under AASB 1049, net worth is calculated as total assets minus total liabilities. Under ABS GFS, net worth is calculated as total assets minus total liabilities minus shares and other contributed capital. The AASB 1049 method is used in this table.

(b) Under AASB 1049, net financial worth equals total financial assets minus total liabilities. Under ABS GFS, net financial worth equals total financial assets minus total liabilities, minus shares and other contributed capital. The AASB 1049 method is used in this table.

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

Table 9: Australian Government total non-financial public sector cash flow statement[(a)]

	Estimates	
	2012-13	2013-14
	$m	$m
Cash receipts from operating activities		
Taxes received	326,206	354,742
Receipts from sales of goods and services	17,292	17,852
Interest receipts	3,729	4,113
Dividends and income tax equivalents	2,892	2,334
Other receipts	6,575	5,497
Total operating receipts	**356,694**	**384,537**
Cash payments for operating activities		
Payments to employees	-30,196	-31,343
Payments for goods and services	-76,522	-80,937
Grants and subsidies paid	-126,872	-139,740
Interest paid	-11,952	-11,948
Personal benefit payments	-116,257	-122,319
Other payments	-5,289	-5,271
Total operating payments	**-367,087**	**-391,559**
Net cash flows from operating activities	**-10,393**	**-7,022**
Cash flows from investments in non-financial assets		
Sales of non-financial assets	1,672	492
Purchases of non-financial assets	-10,642	-13,069
Net cash flows from investments in non-financial assets	**-8,970**	**-12,577**
Net cash flows from investments in financial assets for policy purposes	**-2,286**	**-4,951**
Cash flows from investments in financial assets for liquidity purposes		
Increase in investments	-4,777	-5,024
Net cash flows from investments in financial assets for liquidity purposes	**-4,777**	**-5,024**
Net cash flows from financing activities		
Borrowing (net)	27,483	32,092
Other financing (net)	-1,534	-2,095
Net cash flows from financing activities	**25,949**	**29,998**
Net increase/(decrease) in cash held	**-477**	**424**
Cash at the beginning of the year	**4,356**	**3,879**
Cash at the end of the year	**3,879**	**4,303**
Net cash from operating activities and investments in non-financial assets	**-19,363**	**-19,599**
Distributions paid	0	0
Equals surplus(+)/deficit(-)	**-19,363**	**-19,599**
Finance leases and similar arrangements(b)	-404	-469
GFS cash surplus(+)/deficit(-)	**-19,768**	**-20,067**

(a) A positive number denotes a cash inflow; a negative number denotes a cash outflow.
(b) The acquisition of assets under finance leases decreases the surplus or increases the deficit. The disposal of assets previously held under finance leases increases the surplus or decreases the deficit.

NOTES TO THE GENERAL GOVERNMENT SECTOR FINANCIAL STATEMENTS

Note 1: External reporting standards and accounting policies

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

The major external standards used for budget reporting purposes are:

- the Australian Bureau of Statistics' (ABS) accrual Government Finance Statistics (GFS) publication, *Australian System of Government Finance Statistics: Concepts, Sources and Methods,* (cat no. 5514.0), which in turn is based on the International Monetary Fund (IMF) accrual GFS framework; and

- Australian Accounting Standards (AAS), being AASB 1049 *Whole of Government and General Government Sector Financial Reporting* (AASB 1049) and other applicable Australian Equivalents to International Financial Reporting Standards (AEIFRS).

The financial statements have been prepared on an accrual basis that complies with both ABS GFS and AAS, except for departures disclosed at Note 2.

A more detailed description of the AAS and ABS GFS frameworks, in addition to definitions of key terms used in these frameworks, can be found in Appendix A. Table A2 in Appendix A explains the key differences between the two frameworks. Detailed accounting policies, as required by AAS, are disclosed in the annual consolidated financial statements.

Budget reporting focuses on the general government sector (GGS). The GGS provides public services that are mainly non-market in nature and for the collective consumption of the community, or involve the transfer or redistribution of income. These services are largely financed through taxes and other compulsory levies, user charging and external funding. This sector comprises all government departments, offices and some other bodies. In preparing financial statements for the GGS, all material transactions and balances between entities within the GGS have been eliminated. A list of entities within the GGS, as well as entities within and a description of the public non-financial corporations (PNFC) sector and public financial corporations (PFC) sector, are disclosed in Table A1 in Appendix A.

The Government's key fiscal aggregates are based on ABS GFS concepts and definitions, including the ABS GFS cash surplus/deficit and the derivation of the underlying cash balance and net financial worth. AASB 1049 requires the disclosure of other ABS GFS fiscal aggregates, including net operating balance, net lending/borrowing (fiscal balance) and net worth. In addition to these ABS GFS aggregates the Uniform Presentation Framework (UPF) requires disclosure of net debt, net financial worth and net financial liabilities.

Explanations of variations in fiscal balance, revenue, expenses, net capital investment, cash flows, net debt, net financial worth and net worth since the *Mid-Year Economic and Fiscal Outlook 2012-13* (MYEFO) are disclosed in Statement 3.

Details of the Australian Government's GGS contingent liabilities are disclosed in Statement 8.

Authoritative guidance has not been issued under the AAS for the measurement of accrual revenue and expenses under the carbon pricing mechanism. An interpretation of the AAS for the carbon pricing mechanism is provided in Note 2. Current estimates measure revenue and expenses at the expected market price for carbon in the year in which emissions occur. The Department of Finance and Deregulation and the Department of the Treasury will continue to review this treatment in consultation with the ABS and the Australian National Audit Office (ANAO).

Note 2: Departures from external reporting standards

The Charter requires that departures from applicable external reporting standards be identified. The budget financial statements depart from the external reporting standards as follows.

General government sector

Departures from ABS GFS

ABS GFS requires that provisions for bad and doubtful debts be excluded from the balance sheet. This treatment has not been adopted in the budget financial statements or in any reconciliation notes because excluding such provisions would overstate the value of Australian Government assets in the balance sheet. The budget financial statements currently adopt AAS treatment for provisions for bad and doubtful debts.

ABS GFS treats coins on issue as a liability and no revenue is recognised. The ABS GFS treatment of circulating coins as a liability has not been adopted in the budget financial statements or in any reconciliation notes. Instead, the budget financial statements adopt AAS treatment for circulating coins (seigniorage). Under this treatment, seigniorage revenue is recognised upon the issue of coins and no liability is recorded.

ABS GFS records defence weapons platforms (DWP) as a non-financial asset on a market value basis (fair value), rather than expensing at time of acquisition. The value used by ABS is consistent with the National Accounts statistical methodology, and represents an early adoption of changes to the *System of National Accounts 2008*. ABS GFS treatment of DWP is consistent with AAS, as non-financial assets can be valued at fair value as long as they can be reliably measured, otherwise cost is permissible. DWP will be valued at cost in the budget financial statements, as they have in previous budgets, while the Australian Government ascertains if a relevant and reliable fair value can be sourced.

Under ABS GFS, concessional loans are recognised at their nominal value, that is, they are not discounted to fair (market) value as there is not considered to be a secondary market. This treatment has not been adopted for the financial statements. Consistent with AAS, loans issued at below market interest rates or with long repayment periods are recorded at fair value (by discounting them by market interest rates). The difference between the nominal value and the fair value of the loan is recorded as an expense which is written back over the life of the loan.

ABS GFS requires investments in unlisted public sector entities to be valued based on their net assets. Under AAS, investments in public sector entities can be valued at fair value as long as a fair value can be reliably measured, otherwise net assets is permissible. The AAS treatment has been adopted in the financial statements.

Movements in the provision for restoration, decommissioning and make-good of assets have been included in the calculation of the fiscal balance capital adjustment because in many cases they involve legal obligations to expend resources. ABS GFS does not recognise adjustments for such provisions because they are considered a constructive obligation that may not materialise for many years.

ABS GFS treats the issuance and registration of Renewable Energy Certificates (RECs) under the Renewable Energy Target and Australian Carbon Credit Units (ACCUs) under the Carbon Farming Initiative as government financial transactions resulting in the recognition of assets, liabilities, tax revenue and expenses.

Under the interpretation of the AAS, the issuance and registration of such certificates is considered to be an administrative function and does not result in the recognition of an asset or liability and therefore no tax revenue or expense is recognised. The AAS treatment has been adopted in the financial statements.

Departures from AAS (including AASB 1049)

AAS requires the advances paid to the International Development Association, African Development Fund and Asian Development Fund to be recognised at fair value. Under ABS GFS these advances are recorded at nominal value. The ABS GFS treatment is adopted in the financial statements.

Under AAS, prepayments are classified as non-financial assets. In accordance with ABS GFS, prepayments have been classified as financial assets in the budget financial statements. This treatment is consistent with the exclusion of prepayments from net acquisition of non-financial assets in the calculation of the fiscal balance.

The interpretation of the AAS indicates that transactions under the carbon pricing mechanism are recognised in the financial statements where they are expected to result in a receipt or payment of cash by the government at the amount of the expected cash settlement. The issuance and surrender of free carbon units and ACCUs used in the settlement of emissions liabilities do not qualify for recognition by the government as assets, liabilities, revenues or expenses.

- Revenues are recognised for the amount of cash received and receivable by the government for carbon units at the time when emissions occur, if able to be reliably measured.
- Expenses are recognised on issue of a free carbon unit, based on the number of free permits that are expected to be cashed in by the permit holders under the buy-back arrangements.
- Receivables/payables are recognised at the amount of cash expected to be received/paid by the government.

Transactions under the carbon pricing mechanism are recognised under ABS GFS at their expected market value at the time of the transaction.

- Revenues are recognised at the expected market value of carbon units at the time when emissions occur.
- Expenses are recognised for ACCUs issued in the fixed price period and all free carbon units at the expected market value at the time of issue.
- Receivables/payables are recognised at the carbon units' expected future market value for the reporting period.

In the fixed price period from 1 July 2012 to 30 June 2015, the price of carbon units that the government will pay under the buy-back arrangements and sell to liable emitters to settle their obligations is set by the government. This set price, which is the prevailing fixed price, has been taken to be the market value for the relevant year. Materially, the ABS GFS treatment has been adopted in the financial statements.

AASB 1049 requires disaggregated information, by ABS GFS function, for expenses and total assets to be disclosed where they are reliably attributable. ABS GFS does not require total assets attributed to functions. In accordance with ABS GFS, disaggregated information for expenses and net acquisition of non-financial assets by function is disclosed in Statement 6. In accordance with the UPF, purchases of non-financial assets by function are also disclosed in Statement 6.

AASB 1049 requires AAS measurement of items to be disclosed on the face of the financial statements with reconciliation to ABS GFS measurement of items, where different, in notes to the financial statements. Reconciliation notes have not been included as they would effectively create two measures of the same aggregate.

AASB 1049 requires major variances between original budget estimates and outcomes to be explained in the financial statements. Explanations of major variances for the 2012-13 year from the 2012-13 Budget to the 2012-13 MYEFO are discussed in Part 3 of the MYEFO. All policy decisions taken between the 2012-13 Budget and the 2012-13 MYEFO are disclosed in Appendix A of the MYEFO. Explanations of variations since the 2012-13 MYEFO are disclosed in Statement 3 of this document, with decisions taken since the MYEFO disclosed in Budget Paper No. 2.

In addition to above adjustments, there are specific adjustments made to the corporations sectors as outlined below.

Public non-financial corporations (PNFC) sector and total non-financial public sector (NFPS)

Departures from ABS GFS

AASB 1049 defines net worth for the PNFC sector and NFPS as total assets less total liabilities; however, ABS GFS defines net worth as total assets less total liabilities less shares and contributed capital (which is equal to zero for the PNFC sector). Similarly, AASB 1049 defines net financial worth for these sectors as financial assets less total liabilities, whereas under ABS GFS it is equal to financial assets less total liabilities less shares and contributed capital. The AASB 1049 treatment has been adopted in the PNFC sector and NFPS financial statements.

Departures from AAS (including AASB 1049)

The financial statements for the PNFC sector and NFPS comply with the UPF but do not include all the line item disclosures required by AASB 1049. Disaggregated outcome notes for the PNFC sector will be disclosed in the consolidated financial statements.

AAS requires dividends paid to be classified as a distribution of equity. Under ABS GFS, dividends paid are classified as an expense. The ABS GFS treatment has been adopted for use in the financial statements.

Australian Government public corporations use commercial tax effect accounting to determine their net tax liability while the ATO determines their tax liability on a due and payable basis. To ensure symmetry in treatment between Australian Government sectors, the ABS removes tax effect adjustments. The ABS GFS treatment has been adopted in the financial statements.

Note 3: Taxation revenue by type

	Estimates			Projections	
	2012-13	2013-14	2014-15	2015-16	2016-17
	$m	$m	$m	$m	$m
Individuals' and other withholding taxes					
Gross income tax withholding	151,660	164,660	178,100	192,120	204,820
Gross other individuals	35,940	37,490	41,580	46,640	51,580
less Refunds	26,750	26,800	28,350	30,250	32,100
Total individuals' and other withholding taxation	160,850	175,350	191,330	208,510	224,300
Fringe benefits tax	3,890	4,320	4,740	5,080	5,390
Company tax	68,132	73,969	74,860	80,666	85,213
Superannuation funds	7,800	8,480	10,210	12,850	14,270
Resource rent taxes(a)	1,740	3,420	3,530	4,180	5,340
Total income taxation revenue	**242,412**	**265,539**	**284,670**	**311,286**	**334,513**
Sales taxes					
Goods and services tax	50,220	53,080	55,760	58,920	61,830
Wine equalisation tax	730	780	820	870	920
Luxury car tax	430	400	360	390	420
Total sales taxes	51,380	54,260	56,940	60,180	63,170
Excise duty					
Petrol	6,000	5,790	5,870	5,920	6,000
Diesel	8,610	8,920	9,230	9,430	9,710
Beer	1,950	1,980	2,100	2,220	2,330
Other excisable products(b)	9,030	9,360	9,750	9,880	10,130
of which: Other excisable beverages(c)	900	960	1,000	1,050	1,110
Total excise duty revenue	25,590	26,050	26,950	27,450	28,170
Customs duty					
Textiles, clothing and footwear	680	710	560	410	440
Passenger motor vehicles	920	920	990	1,060	1,140
Excise-like goods(b)	5,660	5,850	6,010	6,220	6,510
Other imports	1,540	1,610	1,670	1,790	1,910
less Refunds and drawbacks	330	260	260	260	260
Total customs duty revenue	8,470	8,830	8,970	9,220	9,740
Carbon pricing mechanism(d)	7,540	8,340	9,270	4,090	6,110
Other indirect taxation					
Agricultural levies	463	443	434	440	446
Other taxes	2,871	3,202	3,372	3,309	3,446
Total other indirect taxation revenue	3,335	3,646	3,806	3,748	3,892
Mirror taxes	485	513	543	576	602
less Transfers to States in relation to mirror tax revenue	485	513	543	576	602
Mirror tax revenue	0	0	0	0	0
Total indirect taxation revenue	**96,315**	**101,126**	**105,936**	**104,688**	**111,082**
Total taxation revenue	**338,727**	**366,664**	**390,606**	**415,974**	**445,595**
Memorandum:					
Capital gains tax	*6,600*	*8,100*	*11,100*	*13,600*	*15,900*
Medicare levy revenue	*9,720*	*10,300*	*14,190*	*15,230*	*16,200*

(a) Comprises gross revenue from the PRRT and MRRT. Net revenue from the MRRT is expected to be $0.2 billion in 2012-13, $0.7 billion in 2013-14, $1.0 billion in 2014-15, $1.4 billion in 2015-16 and $2.2 billion in 2016-17 which represent the net revenue impact across different revenue heads. These include offsetting reductions in company tax (through deductibility) and interactions with other taxes.

(b) Tobacco estimates are not separately reported due to taxpayer confidentiality. Tobacco excise is included in *other excisable products* and tobacco customs duty is included in *excise-like goods*. The Government intends to introduce legislation to enable better public disclosure of tax revenue, even when the identity of particular entities could be determined.

(c) Other excisable beverages are those not exceeding 10 per cent by volume of alcohol (excluding beer, brandy and wine).

(d) Tax revenue includes carbon accrual revenue measured at market price, with details of the accounting treatment of carbon revenue set out in Note 2 to the General Government Sector Financial Statements.

Note 3(a): Taxation revenue by source

	Estimates			Projections	
	2012-13	2013-14	2014-15	2015-16	2016-17
	$m	$m	$m	$m	$m
Taxes on income, profits and capital gains					
Income and capital gains levied on individuals	164,740	179,720	196,140	213,670	229,760
Income and capital gains levied on enterprises	77,672	85,819	88,530	97,616	104,753
Total taxes on income, profits and capital gains	**242,412**	**265,539**	**284,670**	**311,286**	**334,513**
Taxes on employers' payroll and labour force	529	553	590	626	682
Taxes on the provision of goods and services					
Sales/goods and services tax	51,380	54,260	56,940	60,180	63,170
Excises and levies	26,053	26,493	27,384	27,890	28,616
Taxes on international trade	8,470	8,830	8,970	9,220	9,740
Total taxes on the provision of goods and services	**85,903**	**89,583**	**93,294**	**97,290**	**101,526**
Other sale of goods and services	9,882	10,989	12,052	6,773	8,874
Total taxation revenue	**338,727**	**366,664**	**390,606**	**415,974**	**445,595**
Memorandum:					
Medicare levy revenue	*9,720*	*10,300*	*14,190*	*15,230*	*16,200*

Note 4: Sales of goods and services revenue

	Estimates			Projections	
	2012-13	2013-14	2014-15	2015-16	2016-17
	$m	$m	$m	$m	$m
Sales of goods	1,492	1,623	1,669	1,696	1,787
Rendering of services	4,031	3,745	3,439	3,464	3,451
Operating lease rental	53	55	58	59	56
Fees from regulatory services	3,182	3,155	3,277	3,395	3,482
Total sales of goods and services revenue	**8,757**	**8,577**	**8,443**	**8,614**	**8,776**

Note 5: Interest and dividend revenue

	Estimates			Projections	
	2012-13	2013-14	2014-15	2015-16	2016-17
	$m	$m	$m	$m	$m
Interest from other governments					
State and Territory debt	10	11	14	15	15
Housing agreements	160	155	150	144	139
Total interest from other governments	**170**	**166**	**164**	**160**	**154**
Interest from other sources					
Advances	44	48	52	56	62
Deposits	100	92	93	94	102
Bank deposits	157	140	146	153	143
Indexation of HELP receivable and other student loans	503	575	671	790	926
Other	2,790	3,292	3,351	3,727	4,061
Total interest from other sources	**3,594**	**4,147**	**4,313**	**4,821**	**5,295**
Total interest	**3,764**	**4,313**	**4,477**	**4,980**	**5,448**
Dividends					
Dividends from other public sector entities	691	789	539	627	624
Other dividends	1,739	1,637	1,726	1,849	1,980
Total dividends	**2,429**	**2,426**	**2,265**	**2,476**	**2,604**
Total interest and dividend revenue	**6,194**	**6,739**	**6,742**	**7,457**	**8,052**

Note 6: Other sources of non-taxation revenue

	Estimates			Projections	
	2012-13	2013-14	2014-15	2015-16	2016-17
	$m	$m	$m	$m	$m
Industry contributions	39	38	37	38	37
Royalties	1,785	1,457	1,419	1,431	1,431
Seigniorage	136	135	138	137	138
Other	4,324	4,139	4,226	4,447	4,540
Total other sources of non-taxation revenue	**6,284**	**5,768**	**5,820**	**6,052**	**6,146**

Note 7: Employee and superannuation expense

	Estimates			Projections	
	2012-13	2013-14	2014-15	2015-16	2016-17
	$m	$m	$m	$m	$m
Wages and salaries expenses	**19,355**	**19,772**	**19,800**	**20,556**	**21,059**
Other operating expenses					
Leave and other entitlements	2,514	2,507	2,553	2,592	2,636
Separations and redundancies	126	46	46	46	45
Workers compensation premiums and claims	700	622	665	711	910
Other	2,072	2,292	2,422	2,543	2,622
Total other operating expenses	**5,411**	**5,467**	**5,686**	**5,893**	**6,214**
Superannuation expenses					
Superannuation	8,102	4,039	4,040	4,090	4,196
Superannuation interest cost	6,778	8,462	8,773	9,093	9,423
Total superannuation expenses	**14,880**	**12,501**	**12,813**	**13,184**	**13,619**
Total employee and superannuation expense	**39,646**	**37,739**	**38,299**	**39,633**	**40,891**

Note 8: Depreciation and amortisation expense

	Estimates			Projections	
	2012-13	2013-14	2014-15	2015-16	2016-17
	$m	$m	$m	$m	$m
Depreciation					
Specialist military equipment	2,579	2,326	2,489	2,636	2,827
Buildings	1,273	1,306	1,368	1,437	1,438
Other infrastructure, plant and equipment	1,320	1,363	1,408	1,439	1,436
Heritage and cultural assets	36	37	37	37	37
Total depreciation	**5,208**	**5,032**	**5,302**	**5,549**	**5,737**
Total amortisation	**815**	**780**	**755**	**763**	**743**
Total depreciation and amortisation expense	**6,022**	**5,813**	**6,058**	**6,312**	**6,480**

Note 9: Supply of goods and services expense

	Estimates			Projections	
	2012-13	2013-14	2014-15	2015-16	2016-17
	$m	$m	$m	$m	$m
Supply of goods and services	22,931	24,996	24,605	25,300	25,730
Operating lease rental expenses	2,518	2,451	2,477	2,557	2,574
Personal benefits – indirect	39,671	41,419	44,254	48,191	50,932
Health care payments	5,391	5,410	5,471	5,575	5,805
Other	1,509	1,642	1,607	1,675	1,775
Total supply of goods and services expense	**72,019**	**75,918**	**78,414**	**83,298**	**86,816**

Note 10: Interest expense

	Estimates			Projections	
	2012-13	2013-14	2014-15	2015-16	2016-17
	$m	$m	$m	$m	$m
Interest on debt					
Government securities(a)	12,200	12,453	12,733	12,902	12,890
Loans	9	10	9	8	0
Other(b)	550	526	524	523	526
Total interest on debt	**12,759**	**12,989**	**13,266**	**13,432**	**13,416**
Other financing costs	**521**	**1,019**	**1,022**	**991**	**757**
Total interest expense	**13,281**	**14,008**	**14,289**	**14,423**	**14,173**

(a) Public debt interest estimates are calculated using the contract interest rates incurred on existing Commonwealth Government Securities (CGS) when issued and on technical assumptions, based on prevailing market interest rates across the yield curve, for yields on future CGS issuance.
(b) Interest on taxation overpayments has been reclassified from other financing costs to interest on debt.

Note 11: Current and capital grants expense

	Estimates			Projections	
	2012-13	2013-14	2014-15	2015-16	2016-17
	$m	$m	$m	$m	$m
Current grants expense					
State and Territory governments	84,585	87,976	93,036	98,855	105,780
Local governments	34	17	6	2	0
Private sector	1,752	2,832	3,205	2,531	1,936
Overseas	4,115	4,873	5,206	5,823	6,982
Non-profit organisations	1,740	1,630	1,721	1,988	1,797
Multi-jurisdictional sector	9,408	9,737	10,072	10,442	10,616
Other	8,316	11,074	11,865	10,599	11,510
Total current grants expense	**109,950**	**118,137**	**125,111**	**130,239**	**138,621**
Capital grants expense					
Mutually agreed write-downs	1,997	2,137	2,277	2,453	2,633
Other capital grants					
State and Territory governments	6,931	6,873	6,428	5,469	4,424
Local governments	407	435	352	359	342
Private sector	150	40	0	0	0
Multi-jurisdictional sector	95	98	102	105	107
Other	344	459	492	439	477
Total capital grants expense	**9,923**	**10,042**	**9,650**	**8,824**	**7,983**
Total grants expense	**119,873**	**128,179**	**134,762**	**139,063**	**146,604**

Note 12: Personal benefits expense

	Estimates			Projections	
	2012-13	2013-14	2014-15	2015-16	2016-17
	$m	$m	$m	$m	$m
Social welfare - assistance to the aged	37,282	40,185	42,734	45,696	49,077
Assistance to veterans and dependants	6,202	6,213	6,090	5,983	5,801
Assistance to people with disabilities	21,204	22,578	24,063	25,512	27,228
Assistance to families with children	34,328	34,120	34,680	35,502	36,305
Assistance to the unemployed	8,559	9,550	10,559	9,830	9,859
Student assistance	3,349	3,380	3,243	3,175	3,265
Other welfare programmes	1,396	1,288	1,285	1,288	1,315
Financial and fiscal affairs	359	340	363	388	424
Vocational and industry training	274	276	271	267	267
Other	4,444	3,769	5,196	6,884	10,787
Total personal benefits expense	**117,397**	**121,699**	**128,484**	**134,528**	**144,329**

Note 13: Advances paid and other receivables

	Estimates			Projections	
	2012-13	2013-14	2014-15	2015-16	2016-17
	$m	$m	$m	$m	$m
Advances paid					
Loans to State and Territory governments	2,805	2,820	2,768	2,682	2,575
Higher Education Loan Program	22,349	26,210	30,953	36,230	42,090
Student Financial Supplement Scheme	653	588	522	454	383
Other	9,628	11,425	13,234	14,669	16,953
less Provision for doubtful debts	26	26	26	26	26
Total advances paid	**35,409**	**41,017**	**47,452**	**54,008**	**61,975**
Other receivables					
Goods and services receivable	976	932	927	932	942
Recoveries of benefit payments	2,940	3,117	3,250	3,385	3,512
Taxes receivable	22,344	24,923	29,088	31,258	37,233
Prepayments(a)	2,439	2,257	2,230	2,240	2,270
Other	19,131	19,011	17,414	18,015	18,769
less Provision for doubtful debts	3,366	3,482	3,599	3,719	3,847
Total other receivables	**44,464**	**46,756**	**49,310**	**52,111**	**58,880**

(a) Prepayments have been reclassified from other non-financial assets to other receivables to align with ABS GFS.

Note 14: Investments, loans and placements

	Estimates			Projections	
	2012-13	2013-14	2014-15	2015-16	2016-17
	$m	$m	$m	$m	$m
Investments - deposits	30,103	30,245	27,994	25,485	29,265
IMF quota	4,830	9,848	9,935	10,022	10,022
Other	68,345	72,872	78,296	85,013	92,038
Total investments, loans and placements	**103,278**	**112,965**	**116,226**	**120,520**	**131,325**

Note 15: Total non-financial assets

	Estimates			Projections	
	2012-13	2013-14	2014-15	2015-16	2016-17
	$m	$m	$m	$m	$m
Land and buildings					
Land	8,680	8,719	8,663	8,634	8,602
Buildings	23,433	24,454	24,613	25,592	25,784
Total land and buildings	**32,113**	**33,173**	**33,276**	**34,226**	**34,386**
Plant, equipment and infrastructure					
Specialist military equipment	40,794	41,372	43,349	45,657	48,187
Other	12,911	13,516	13,427	13,168	12,618
Total plant, equipment and infrastructure	**53,705**	**54,888**	**56,776**	**58,825**	**60,805**
Inventories					
Inventories held for sale	1,144	1,122	1,065	1,063	1,093
Inventories not held for sale	6,173	6,084	5,974	5,903	5,828
Total inventories	**7,318**	**7,206**	**7,039**	**6,966**	**6,920**
Intangibles					
Computer software	3,402	3,411	3,233	3,045	2,858
Other	2,199	2,301	2,487	2,743	3,089
Total intangibles	**5,602**	**5,712**	**5,719**	**5,788**	**5,948**
Total investment properties	**182**	**182**	**182**	**182**	**182**
Total biological assets	**37**	**37**	**37**	**37**	**37**
Total heritage and cultural assets	**10,451**	**10,465**	**10,477**	**10,488**	**10,501**
Total assets held for sale	**83**	**83**	**121**	**83**	**83**
Total other non-financial assets(a)	**795**	**873**	**1,446**	**342**	**268**
Total non-financial assets	**110,284**	**112,619**	**115,073**	**116,937**	**119,130**

(a) Other non-financial assets exclude prepayments that have been reclassified to other receivables to align with ABS GFS.

Note 16: Loans

	Estimates			Projections	
	2012-13	2013-14	2014-15	2015-16	2016-17
	$m	$m	$m	$m	$m
Promissory notes	3,176	6,453	5,978	5,956	5,934
Special drawing rights	4,586	4,627	4,667	4,708	4,708
Other	827	772	702	497	446
Total loans	**8,588**	**11,851**	**11,347**	**11,161**	**11,088**

Note 17: Employee and superannuation liabilities

	Estimates			Projections	
	2012-13	2013-14	2014-15	2015-16	2016-17
	$m	$m	$m	$m	$m
Total superannuation liability(a)	**143,509**	**148,710**	**154,001**	**159,356**	**164,806**
Other employee liabilities					
Leave and other entitlements	7,378	7,426	7,516	7,658	7,809
Accrued salaries and wages	628	651	675	484	513
Workers compensation claims	2,594	2,626	2,656	2,690	2,730
Separations and redundancies	63	60	60	60	60
Other	3,936	4,066	4,078	4,082	4,280
Total other employee liabilities	**14,600**	**14,829**	**14,984**	**14,974**	**15,391**
Total employee and superannuation liabilities	**158,109**	**163,539**	**168,985**	**174,330**	**180,197**

(a) For budget reporting purposes, a discount rate applied by actuaries in preparing Long-Term Cost Reports is used to value the superannuation liability. This reduces the volatility in reported liabilities that would occur from year to year if the long-term government bond rate were used. Consistent with AAS, the long-term government bond rate as at 30 June is used to calculate the superannuation liability for the purpose of actuals reporting.

Note 18: Provisions and payables

	Estimates			Projections	
	2012-13	2013-14	2014-15	2015-16	2016-17
	$m	$m	$m	$m	$m
Suppliers payable					
Trade creditors	3,744	3,743	3,807	3,870	3,833
Operating lease rental payable	202	201	203	202	201
Other creditors	318	314	310	308	306
Total suppliers payable	**4,264**	**4,259**	**4,320**	**4,380**	**4,340**
Total personal benefits provisions and payable	**14,240**	**13,952**	**14,273**	**14,585**	**15,071**
Total subsidies provisions and payable	**3,216**	**3,475**	**3,460**	**3,845**	**5,092**
Grants provisions and payable					
State and Territory governments	339	320	319	319	318
Non-profit organisations	218	214	214	214	214
Private sector	488	475	475	475	475
Overseas	1,502	2,129	2,061	1,513	1,954
Local governments	7	7	7	7	7
Other	14,476	12,746	10,086	9,414	9,587
Total grants provisions and payable	**17,030**	**15,892**	**13,162**	**11,942**	**12,555**
Other provisions and payables					
Provisions for tax refunds	2,970	3,021	3,037	3,062	3,086
Other	10,991	11,157	11,417	12,469	14,963
Total other provisions and payables	**13,961**	**14,178**	**14,454**	**15,531**	**18,049**

Note 19: Reconciliation of cash

	Estimates			Projections	
	2012-13	2013-14	2014-15	2015-16	2016-17
	$m	$m	$m	$m	$m
Operating balance (revenues less expenses)	**-21,478**	**-10,552**	**-4,051**	**7,082**	**13,822**
less **Revenues not providing cash**					
Other	735	928	1,114	1,342	1,592
Total revenues not providing cash	**735**	**928**	**1,114**	**1,342**	**1,592**
plus **Expenses not requiring cash**					
Increase/(decrease) in employee entitlements	8,184	5,570	5,627	5,563	6,119
Depreciation/amortisation expense	6,046	5,832	6,073	6,324	6,494
Mutually agreed write-downs	1,997	2,137	2,277	2,453	2,633
Other	90	384	718	865	-427
Total expenses not requiring cash	**16,317**	**13,923**	**14,695**	**15,205**	**14,819**
plus **Cash provided/(used) by working capital items**					
Decrease/(increase) in inventories	-260	-162	-122	-205	-247
Decrease/(increase) in receivables	-8,501	-8,967	-9,534	-8,860	-13,542
Decrease/(increase) in other financial assets	1,280	1,656	1,628	1,803	2,471
Decrease/(increase) in other non-financial assets	64	169	12	-27	-50
Increase/(decrease) in benefits, subsidies and grants payable	4,212	-1,158	-2,297	-345	3,013
Increase/(decrease) in suppliers' liabilities	-757	17	44	27	-41
Increase/(decrease) in other provisions and payables	-706	-851	-1,248	-2,338	277
Net cash provided/(used) by working capital	**-4,670**	**-9,296**	**-11,516**	**-9,945**	**-8,119**
equals (Net cash from/(to) operating activities)	-10,566	-6,853	-1,986	10,999	18,930
plus (Net cash from/(to) investing activities)	-14,926	-22,874	-23,012	-24,077	-32,794
Net cash from operating activities and investment	**-25,492**	**-29,728**	**-24,998**	**-13,078**	**-13,864**
plus (Net cash from/(to) financing activities)	25,439	29,937	25,404	13,624	14,110
equals **Net increase/(decrease) in cash**	**-54**	**209**	**406**	**545**	**247**
Cash at the beginning of the year	**2,523**	**2,470**	**2,679**	**3,085**	**3,630**
Net increase/(decrease) in cash	-54	209	406	545	247
Cash at the end of the year	**2,470**	**2,679**	**3,085**	**3,630**	**3,877**

Note 19(a): Consolidated Revenue Fund

	Estimates			Projections	
	2012-13	2013-14	2014-15	2015-16	2016-17
	$m	$m	$m	$m	$m
Total general government sector cash	2,470	2,679	3,085	3,630	3,877
less CAC Agency cash balances	1,800	1,798	1,860	2,036	2,184
plus Special public monies	382	382	382	382	382
Balance of Consolidated Revenue Fund at 30 June	**1,052**	**1,263**	**1,607**	**1,976**	**2,075**

The estimated and projected cash balances reflected in the balance sheet for the Australian Government GGS (Table 2) include the reported cash balances controlled and administered by Australian Government agencies subject to the *Financial Management and Accountability Act 1997*, and the reported cash balances controlled and administered by entities subject to the *Commonwealth Authorities and Companies Act 1997* (CAC Act), that implement public policy through the provision of primarily non-market services.

Revenues or monies raised by the Executive Government automatically form part of the Consolidated Revenue Fund by force of section 81 of the Australian Constitution. For practical purposes, total Australian Government GGS cash, less cash controlled and administered by CAC Act entities, plus special public monies, represents the Consolidated Revenue Fund referred to in section 81 of the Australian Constitution. On this basis, the balance of the Consolidated Revenue Fund is shown above.

Further information on the Consolidated Revenue Fund is included in Budget Paper No. 4, *Agency Resourcing 2013-14*.

APPENDIX A: FINANCIAL REPORTING STANDARDS AND BUDGET CONCEPTS

The *Charter of Budget Honesty Act 1998* (the Charter) requires the budget to be based on external reporting standards.

The Government has produced a single set of financial statements that comply with both ABS GFS and AAS, meeting the requirement of the Charter, with departures disclosed. The statements reflect the Government's accounting policy that ABS GFS remains the basis of budget accounting policy, except where the Government applies AAS because it provides a better conceptual basis for presenting information of relevance to users of public sector financial reports.

AASB 1049 and the Uniform Presentation Framework (UPF) also provide a basis for reporting of the public non-financial corporations (PNFC) and public financial corporations (PFC) sectors and the total non-financial public sector (NFPS).

General Government Sector Financial Reporting (AASB 1049)

The budget primarily focuses on the financial performance and position of the general government sector (GGS). The ABS defines the GGS as providing public services which are mainly non-market in nature, mainly for the collective consumption of the community, involving the transfer or redistribution of income and financed mainly through taxes and other compulsory levies. AASB 1049 recognises the GGS as a reporting entity.

AASB 1049 history and conceptual framework

The Australian Accounting Standards Board (AASB) released AASB 1049 for application from the 2008-09 financial year. AASB 1049 seeks to 'harmonise' ABS GFS and AAS.

The reporting framework for AASB 1049 requires the preparation of accrual-based general purpose financial reports, showing government assets, liabilities, revenue, expenses and cash flows. GGS reporting under AASB 1049 aims to provide users with information about the stewardship of each government in relation to its GGS and accountability for the resources entrusted to it; information about the financial position, performance and cash flows of each government's GGS; and information that facilitates assessments of the macroeconomic impact. While AASB 1049 provides a basis for whole-of-government and GGS outcome reporting (including the PNFC and PFC sectors), budget reporting focuses on the GGS.

There are three main general purpose statements that must be prepared in accordance with ABS GFS and AASB 1049. These are:

- an operating statement, including other economic flows, which shows net operating balance and net lending/borrowing (fiscal balance);

– to allow the presentation of a single set of financial statements in accordance with AASB 1049, the ABS GFS statement of other economic flows has been incorporated into the operating statement;

- a balance sheet, which also shows net worth, net financial worth, net financial liabilities and net debt; and

- a cash flow statement, which includes the calculation of the underlying cash balance.

In addition to these general purpose statements, notes to the financial statements are required. These notes include a summary of accounting policies, disaggregated information and other disclosures required by AAS. A full set of notes and other disclosures required by AAS are included in the annual consolidated financial statements.

All financial data presented in the financial statements are recorded as either stocks (assets and liabilities) or flows (classified as either transactions or other economic flows). Transactions result from a mutually agreed interaction between economic entities. Despite their compulsory nature, taxes are transactions deemed to occur by mutual agreement between the government and the taxpayer. Transactions that increase or decrease net worth (assets less liabilities) are reported as revenues and expenses respectively in the operating statement.[1]

A change to the value or volume of an asset or liability that does not result from a transaction is an ‘other economic flow’. This can include changes in values from market prices, most actuarial valuations, and exchange rates, and changes in volumes from discoveries, depletion and destruction. All other economic flows are reported in the operating statement.

Consistent with the ABS GFS framework, and in general AAS, the financial statements record flows in the period in which they occur. As a result, prior period outcomes may be revised for classification changes relating to information that could reasonably have been expected to be known in the past, is material in at least one of the affected periods and can be reliably assigned to the relevant period(s).

Operating statement

The operating statement presents details of transactions in revenues, expenses, the net acquisition of non-financial assets (net capital investment) and other economic flows for an accounting period.

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1 Not all transactions impact on net worth. For example, transactions in financial assets and liabilities do not impact on net worth as they represent the swapping of assets and liabilities on the balance sheet.

Revenues arise from transactions that increase net worth and expenses arise from transactions that decrease net worth. Revenues less expenses gives the net operating balance. The net operating balance is similar to the National Accounts concept of government saving plus capital transfers.

The net acquisition of non-financial assets (net capital investment) measures the change in the Australian Government's stock of non-financial assets owing to transactions. As such, it measures the net effect of purchases, sales and consumption (for example, depreciation of fixed assets and use of inventory) of non-financial assets during an accounting period.

Net acquisition of non-financial assets equals gross fixed capital formation, less depreciation, plus changes (investment) in inventories, plus other transactions in non-financial assets.

Other economic flows are presented in the operating statement and outline changes in net worth that are driven by economic flows other than revenues and expenses. Revenues, expenses and other economic flows sum to the total change in net worth during a period. The majority of other economic flows for the Australian Government GGS arise from price movements in its assets and liabilities.

Fiscal balance

The fiscal balance (or net lending/borrowing) is the net operating balance less net capital investment. Thus, the fiscal balance includes the impact of net expenditure (effectively purchases less sales) on non-financial assets rather than consumption (depreciation) of non-financial assets.[2]

The fiscal balance measures the Australian Government's investment-saving balance. It measures in accrual terms the gap between government savings plus net capital transfers, and investment in non-financial assets. As such, it approximates the contribution of the Australian Government GGS to the balance on the current account in the balance of payments.

Balance sheet

The balance sheet shows stocks of assets, liabilities and net worth. In accordance with the UPF, net debt, net financial worth and net financial liabilities are also reported in the balance sheet.

2 The net operating balance includes consumption of non-financial assets because depreciation is an expense. Depreciation also forms part of net capital investment, which (in the calculation of fiscal balance) offsets the inclusion of depreciation in the net operating balance.

Net worth

The net worth of the GGS, PNFC and PFC sectors is defined as assets less liabilities. This differs from the ABS GFS definition for the PNFC and PFC sectors where net worth is defined as assets less liabilities less shares and other contributed capital. Net worth is an economic measure of wealth, reflecting the Australian Government's contribution to the wealth of Australia.

Net financial worth

Net financial worth measures a government's net holdings of financial assets. It is calculated from the balance sheet as financial assets minus liabilities. This differs from the ABS GFS definition of net financial worth for the PNFC and PFC sectors, defined as financial assets, less liabilities, less shares and other contributed capital. Net financial worth is a broader measure than net debt, in that it incorporates provisions made (such as superannuation) as well as holdings of equity. Net financial worth includes all classes of financial assets and all liabilities, only some of which are included in net debt. As non-financial assets are excluded from net financial worth, this is a narrower measure than net worth. However, it avoids the concerns inherent with the net worth measure relating to the valuation of non-financial assets and their availability to offset liabilities.

Net financial liabilities

Net financial liabilities comprises total liabilities less financial assets but excludes equity investments in the other sectors of the jurisdiction. Net financial liabilities is a more accurate indicator than net debt of a jurisdiction's fiscal position as it includes substantial non-debt liabilities such as accrued superannuation and long service leave entitlements. Excluding the net worth of other sectors of government results is a purer measure of financial worth than net financial worth as, in general, the net worth of other sectors of government, in particular the PNFC sector, is backed up by physical assets.

Net debt

Net debt is the sum of selected financial liabilities (deposits held, government securities, loans, and other borrowing) less the sum of selected financial assets[3] (cash and deposits, advances paid, and investments, loans and placements). This includes financial assets held by the Future Fund which are invested in these asset classes, including term deposits and investments in collective investment vehicles. Net debt does not include superannuation related liabilities. Net debt is a common measure of the strength of a government's financial position. High levels of net debt impose a call on future revenue flows to service that debt.

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3 Financial assets are defined as cash, an equity instrument of another entity, a contractual right to receive cash or financial asset, and a contract that will or may be settled in the entity's own equity instruments.

Cash flow statement

The cash flow statement identifies how cash is generated and applied in a single accounting period. The cash flow statement reflects a cash basis of recording (rather than an accrual basis) where information is derived indirectly from underlying accrual transactions and movements in balances. This, in effect, means that transactions are captured when cash is received or when cash payments are made. Cash transactions are specifically identified because cash management is considered an integral function of accrual budgeting.

Underlying cash balance

The underlying cash balance plus net Future Fund earnings (ABS GFS cash surplus/deficit) is the cash counterpart of the fiscal balance, reflecting the Australian Government's cash investment-saving balance. For the GGS, the underlying cash balance is calculated as shown below:

Net cash flows from operating activities
plus
Net cash flows from investments in non-financial assets
less
Net acquisitions of assets acquired under finance leases and similar arrangements[4]
equals
ABS GFS cash surplus/deficit
less
Net Future Fund earnings
equals
Underlying cash balance

The Government has excluded net Future Fund earnings from the calculation of the underlying cash balance since the 2012-13 MYEFO. This reflects the operations of the Future Fund and treats earnings and costs consistently in the calculation of the underlying cash balance. Previously, the underlying cash balance only excluded the gross earnings of the Future Fund.

Under the *Future Fund Act 2006*, earnings are required to be reinvested to meet the Government's future public sector superannuation liabilities. The Future Fund becomes available to meet the Government's superannuation liabilities from 2020.

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4 The underlying cash balance treats the acquisition and disposal of non-financial assets in the same manner regardless of whether they occur by purchase/sale or finance lease — acquisitions reduce the underlying cash balance and disposals increase the underlying cash balance. However, finance leases do not generate cash flows at the time of acquisition or disposal equivalent to the value of the asset. As such, net acquisitions of assets under finance leases are not shown in the body of the cash flow statement but are reported as a supplementary item for the calculation of the underlying cash balance.

In contrast, net Future Fund earnings are included in the fiscal balance because superannuation expenses relating to future cash payments are recorded in the fiscal balance estimates.

Expected net Future Fund earnings are separately identified in the Australian Government GGS cash flow statement in Table 3 of this statement and related tables in Statement 3 and Statement 10.

Headline cash balance

The headline cash balance is calculated by adding net cash flows from investments in financial assets for policy purposes and net Future Fund earnings to the underlying cash balance.

Cash flows from investments in financial assets for policy purposes include equity transactions and net advances.[5] Equity transactions include equity injections into controlled businesses and privatisations of government businesses. Net advances include net loans to the States, net loans to students under the Higher Education Loan Program (HELP), and contributions to international organisations that increase the Australian Government's financial assets.

Sectoral classifications

To assist in analysing the public sector, data is presented by institutional sector as shown in Figure 1. ABS GFS defines the GGS and the PNFC and PFC sectors. AASB 1049 has also adopted this sectoral reporting.

5 Cash flows from investments in financial assets for policy purposes were called net advances under the cash budgeting framework.

Figure 1: Institutional structure of the public sector

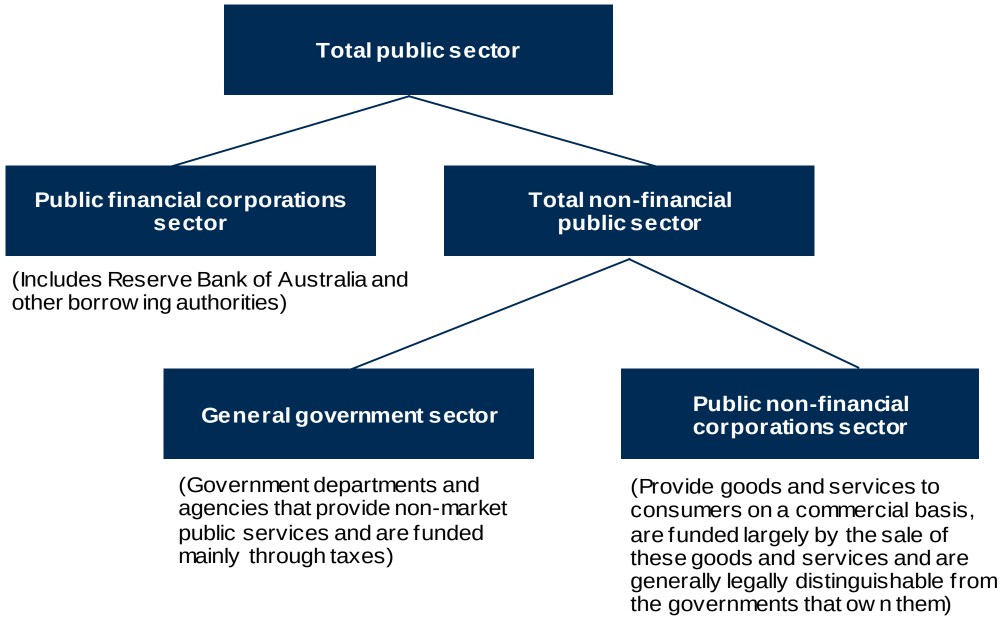

Table A1: Entities within the sectoral classifications

General government sector entities
Agriculture, Fisheries and Forestry Portfolio Australian Fisheries Management Authority, Australian Pesticides and Veterinary Medicines Authority, Cotton Research and Development Corporation, Department of Agriculture, Fisheries and Forestry, Fisheries Research and Development Corporation, Grains Research and Development Corporation, Grape and Wine Research and Development Corporation, Rural Industries Research and Development Corporation, Sugar Research and Development Corporation, Wheat Exports Australia, Wine Australia Corporation
Attorney-General's Portfolio Administrative Appeals Tribunal, Attorney-General's Department, Australian Commission for Law Enforcement Integrity, Australian Crime Commission, Australian Customs and Border Protection Service, Australian Federal Police, Australian Human Rights Commission, Australian Institute of Criminology, Australian Law Reform Commission, Australian Security Intelligence Organisation, Australian Transaction Reports and Analysis Centre, CrimTrac Agency, Family Court and Federal Circuit Court, Federal Court of Australia, High Court of Australia, Insolvency and Trustee Service Australia, Office of the Australian Information Commissioner, Office of the Director of Public Prosecutions, Office of Parliamentary Counsel
Broadband, Communications and the Digital Economy Portfolio Australian Broadcasting Corporation, Australian Communications and Media Authority, Department of Broadband, Communications and the Digital Economy, Special Broadcasting Service Corporation, Telecommunications Universal Service Management Agency
Defence Portfolio AAF Company, Army and Air Force Canteen Service, Australian Military Forces Relief Trust Fund, Australian Strategic Policy Institute Limited, Australian War Memorial, Defence Housing Australia, Defence Materiel Organisation, Department of Defence, Department of Veterans' Affairs, RAAF Welfare Recreational Company, Royal Australian Air Force Veterans' Residences Trust Fund, Royal Australian Air Force Welfare Trust Fund, Royal Australian Navy Central Canteens Board, Royal Australian Navy Relief Trust Fund

Table A1: Entities within the sectoral classifications (continued)

General government sector entities (continued)
Education, Employment and Workplace Relations Portfolio Australian Curriculum, Assessment and Reporting Authority, Australian Institute for Teaching and School Leadership Limited, Comcare, Department of Education, Employment and Workplace Relations, Fair Work Commission, Office of the Fair Work Building Industry Inspectorate (Fair Work Building and Construction), Office of the Fair Work Ombudsman, Safe Work Australia, Seafarers Safety, Rehabilitation and Compensation Authority (Seacare Authority)
Families, Housing, Community Services and Indigenous Affairs Portfolio Aboriginal Hostels Limited, Anindilyakwa Land Council, Australian Institute of Family Studies, Central Land Council, Department of Families, Housing, Community Services and Indigenous Affairs, DisabilityCare Australia (National Disability Insurance Scheme Launch Transition Agency), Equal Opportunity for Women in the Workplace Agency, Indigenous Business Australia, Indigenous Land Corporation, Northern Land Council, Outback Stores Pty Ltd, Tiwi Land Council, Torres Strait Regional Authority, Workplace Gender Equality Agency, Wreck Bay Aboriginal Community Council
Finance and Deregulation Portfolio Australian Electoral Commission, Commonwealth Superannuation Corporation, ComSuper, Department of Finance and Deregulation, Future Fund Management Agency
Foreign Affairs and Trade Portfolio AusAID, Australian Centre for International Agricultural Research, Australian Secret Intelligence Service, Australian Trade Commission, Department of Foreign Affairs and Trade, Export Finance and Insurance Corporation National Interest Account
Health and Ageing Portfolio Aged Care Standards and Accreditation Agency Ltd, Australian Commission on Safety and Quality in Health Care, Australian Institute of Health and Welfare, Australian National Preventative Health Agency, Australian Organ and Tissue Donation and Transplantation Authority, Australian Radiation Protection and Nuclear Safety Agency, Cancer Australia, Department of Health and Ageing, Food Standards Australia New Zealand, General Practice Education and Training Limited, Health Workforce Australia, Independent Hospital Pricing Authority, National Blood Authority, National Health Funding Body, National Health and Medical Research Council, National Health Performance Authority, Private Health Insurance Administration Council, Private Health Insurance Ombudsman, Professional Services Review

Table A1: Entities within the sectoral classifications (continued)

General government sector entities (continued)
Human Services Portfolio Department of Human Services
Immigration and Citizenship Portfolio Department of Immigration and Citizenship, Migration Review Tribunal and Refugee Review Tribunal
Industry, Innovation, Climate Change, Science, Research and Tertiary Education Portfolio Australian Institute of Aboriginal and Torres Strait Islander Studies, Australian Institute of Marine Science, Australian Nuclear Science and Technology Organisation, Australian Research Council, Australian Skills Quality Authority (National Vocational Education and Training Regulator), Clean Energy Regulator, Climate Change Authority, Commonwealth Scientific and Industrial Research Organisation, Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education, IIF Investments Pty Limited, IP Australia, Low Carbon Australia Limited, Tertiary Education Quality and Standards Agency
Infrastructure and Transport Portfolio Australian Maritime Safety Authority, Australian Transport Safety Bureau, Civil Aviation Safety Authority, Department of Infrastructure and Transport, National Transport Commission
Prime Minister and Cabinet Portfolio Australian National Audit Office, Australian Public Service Commission, Department of the Prime Minister and Cabinet, National Australia Day Council Limited, National Mental Health Commission, Office of the Commonwealth Ombudsman, Office of the Inspector-General of Intelligence and Security, Office of National Assessments, Office of the Official Secretary to the Governor-General
Regional Australia, Local Government, Arts and Sport Portfolio Australia Business Arts Foundation Ltd, Australia Council, Australian Film, Television and Radio School, Australian National Maritime Museum, Australian Sports Anti-Doping Authority, Australian Sports Commission, Australian Sports Foundation Limited, Bundanon Trust, Department of Regional Australia, Local Government, Arts and Sport, National Archives of Australia, National Capital Authority, National Film and Sound Archive, National Gallery of Australia, National Library of Australia, National Museum of Australia, National Portrait Gallery of Australia, Old Parliament House, Screen Australia

Table A1: Entities within the sectoral classifications (continued)

General government sector entities (continued)
Resources, Energy and Tourism Portfolio Australian Renewable Energy Agency, Australian Solar Institute Limited, Department of Resources, Energy and Tourism, Geoscience Australia, National Offshore Petroleum Safety and Environmental Management Authority, Tourism Australia
Sustainability, Environment, Water, Population and Communities Portfolio Bureau of Meteorology, Department of Sustainability, Environment, Water, Population and Communities, Director of National Parks, Great Barrier Reef Marine Park Authority, Murray-Darling Basin Authority, National Water Commission, Sydney Harbour Federation Trust
Treasury Portfolio Australian Bureau of Statistics, Australian Competition and Consumer Commission, Australian Office of Financial Management, Australian Prudential Regulation Authority, Australian Securities and Investments Commission, Australian Taxation Office, Clean Energy Finance Corporation, Commonwealth Grants Commission, Corporations and Markets Advisory Committee, Department of the Treasury, Inspector-General of Taxation, National Competition Council, Office of the Auditing and Assurance Standards Board, Office of the Australian Accounting Standards Board, Productivity Commission, Royal Australian Mint
Parliamentary Departments Department of the House of Representatives, Department of Parliamentary Services, Department of the Senate, Parliamentary Budget Office
Public financial corporations
Education, Employment and Workplace Relations Portfolio Coal Mining Industry (Long Service Leave Funding) Corporation Finance and Deregulation Portfolio Medibank Private Ltd Foreign Affairs and Trade Portfolio Export Finance and Insurance Corporation Treasury Portfolio Australia Reinsurance Pool Corporation, Reserve Bank of Australia

Table A1: Entities within the sectoral classifications (continued)

Public non-financial corporations
Attorney General's Portfolio
Australian Government Solicitor
Broadband, Communications and the Digital Economy Portfolio
Australian Postal Corporation, NBN Co Ltd
Families, Housing, Community Services and Indigenous Affairs Portfolio
Voyages Indigenous Tourism Australia Pty Ltd
Finance and Deregulation Portfolio
Albury-Wodonga Development Corporation, Australian River Co. Ltd, ASC Pty Ltd, Moorebank Intermodal Company Ltd
Human Services Portfolio
Australian Hearing Services
Infrastructure and Transport Portfolio
Airservices Australia, Australian Rail Track Corporation Ltd

Differences between ABS GFS and AAS framework (including AASB 1049)

AASB 1049 has adopted the AAS conceptual framework and principles for the recognition of assets, liabilities, revenues and expenses and their presentation, measurement and disclosure. In addition, AASB 1049 has broadly adopted the ABS GFS conceptual framework for presenting government financial statements. In particular, AASB 1049 requires the GGS to prepare a separate set of financial statements, over-riding AASB 127 *Consolidated and Separate Financial Statements*. AASB 1049 also follows ABS GFS by requiring changes in net worth to be split into either transactions or 'other economic flows' and for this to be presented in a single operating statement. AASB 1049 is therefore broadly consistent with international statistical standards and the International Monetary Fund's (IMF) *Government Finance Statistics Manual 2001*.[6]

Some of the major differences between AAS and the ABS GFS treatments of transactions are outlined in Table A2. Further information on the differences between

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6 Additional information on the Australian accrual GFS framework is available in the ABS publication *Australian System of Government Finance Statistics: Concepts, Sources and Methods, 2005* (cat. no. 5514.0).

the two systems is provided in the ABS publication *Australian System of Government Finance Statistics: Concepts, Sources and Methods, 2005* (cat. no. 5514.0).

Table A2: Major differences between AAS and ABS GFS

Issue	AAS treatment	ABS GFS treatment	Treatment adopted
Acquisition of defence weapons platforms (DWP)	Treated as capital expenditure. DWP appear as a non-financial asset on the balance sheet. Depreciation expense on assets is recorded in the operating statement. AASB 1049 requires cost to be used where fair value of the assets cannot be reliably measured.	ABS has updated its treatment in its GFS reports to record DWP as a non-financial asset on a market value basis. This represents an early adoption of changes to the System of National Accounts.	AAS
Circulating coins — seigniorage	The profit between the cost and sale of circulating coins (seigniorage) is treated as revenue.	Circulating coins is treated as a liability, and the cost of producing the coins is treated as an expense.	AAS
Provisions for bad and doubtful debts	Reported in the balance sheet as an offset to assets. Under AASB 1049, it is included in the operating statement as other economic flows.	Creating provisions for bad and doubtful debts is not considered an economic event and is therefore not considered to be an expense or reflected in the balance sheet.	AAS
Advances to the International Development Association and Asian Development Fund	Recorded at fair value in the balance sheet.	Recorded at nominal value in balance sheet.	ABS GFS
Concessional loans	Discounts concessional loans by a market rate of a similar instrument.	Does not discount concessional loans as no secondary market is considered to exist.	AAS
Investment in Other Public Sector Entities	Valued at fair value in the balance sheet as long as it can be reliably measured, otherwise net assets is permissible.	Unlisted entities valued based on their net assets in the balance sheet.	AAS
Provision for restoration, decommissioning and make-good	Included in the Fiscal Balance capital adjustment.	Excluded from the calculation of net lending capital adjustment.	AAS
Renewable Energy Certificates (RECs) and Australian Carbon Credit Units (ACCUs)	The issuance and registration of such certificates is considered to be an administrative function and does not result in the recognition of an asset or liability and therefore no tax revenue or expense is recognised.	The issuance and registration of such certificates is considered to be government financial transactions resulting in the recognition of assets, liabilities, tax revenue and expenses.	AAS

Issue	AAS treatment	ABS GFS treatment	Treatment adopted
Carbon pricing mechanism	The interpretation of the AAS framework indicates that the transactions are recognised in the financial statements where they are expected to result in a receipt or payment of cash by the government at the amount of the expected cash settlement. The issuance and surrender of free carbon units and ACCUs used in the settlement of emissions liabilities do not qualify for recognition by the government as assets, liabilities, revenues or expenses.	Transactions are recognised at their expected market value at the time of the transaction. In the fixed price period from 1 July 2012 to 30 June 2015, the price of carbon units that the government will pay under the buy-back arrangements and sell to liable emitters to settle their obligations is set by the government at the prevailing fixed price and is regarded as the market value.	ABS GFS
Dividends paid by public corporations	Treated as an equity distribution. Equity distributions are treated as a distribution of profits, as opposed to an expense.	Dividends are treated as an expense.	ABS GFS
Commercial tax effect accounting assets and liabilities	Corporations in the PNFC and PFC sectors record tax expenses on a commercial basis.	Deferred tax assets and liabilities are reversed so that Corporations record tax expenses on a consistent basis to the Australian Taxation Office.	ABS GFS
Fiscal aggregates differences			
Finance leases	Does not deduct finance leases in the derivation of the cash surplus/deficit.	Deducts finance leases in the derivation of the cash surplus/deficit.	Both are disclosed
Net worth of PNFC and PFC sectors	Calculated as assets less liabilities.	Calculated as assets less liabilities less shares and other contributed capital.	AAS
Classification difference			
Prepayments	Treated as a non-financial asset.	Treated as a financial asset.	ABS GFS

APPENDIX B: AUSTRALIAN LOAN COUNCIL ALLOCATION

Under the Loan Council arrangements, every year the Commonwealth and each State and Territory government nominate an annual Loan Council Allocation (LCA). A jurisdiction's LCA incorporates:

- the estimated non-financial public sector ABS GFS cash surplus/deficit (made up from the balance of the general government and public non-financial corporations sectors and total non-financial public sector acquisitions under finance leases and similar arrangements);
- net cash flows from investments in financial assets for policy purposes; and
- memorandum items, which involve transactions that are not formally borrowings but nevertheless have many of the characteristics of borrowings.

LCA nominations are considered by the Loan Council, having regard to each jurisdiction's fiscal position and infrastructure requirements, as well as the macroeconomic implications of the aggregate figure.

As set out in Table B1, the Australian Government's revised estimate for the 2013-14 LCA is a $29.0 billion deficit. This compares with its LCA nomination of a $10.3 billion deficit endorsed by the Loan Council on 3 April 2013.

The Loan Council Allocation Budget estimate falls outside the tolerance limit set at nomination. This change primarily reflects the weaker outlook for tax receipts.

Table B1: Commonwealth's Loan Council Allocation budget update for 2013-14

		2013-14 Nomination $m	2013-14 Budget estimate $m
	GGS cash surplus(-)/deficit(+)	-4,835	14,736
	PNFC sector cash surplus(-)/deficit(+)	2,884	4,862
	NFPS cash surplus(-)/deficit(+)(a)	-1,951	19,599
plus	Acquisitions under finance leases and similar arrangements	470	469
equals	ABS GFS cash surplus(-)/deficit(+)	-1,481	20,067
minus	Net cash flows from investments in financial assets for policy purposes(b)	-12,732	-10,073
plus	Memorandum items(c)	-985	-1,121
	Loan Council Allocation	**10,265**	**29,019**
	2013-14 tolerance limit(d)	7,982	7,691

(a) May not directly equate to the sum of the GGS and the PNFC sector due to intersectoral transfers which are netted out.

(b) Net cash flows from investments in financial assets for policy purposes are displayed with the same sign as they are reported in cash flow statements. Such transactions involve the transfer or exchange of a financial asset and are not included within the cash surplus/deficit. However, the cash flow from investments in financial assets for policy purposes has implications for a government's call on financial markets.

(c) For the Commonwealth's Loan Council Allocation, memorandum items include the change in net present value (NPV) of operating leases (with NPV greater than $5 million), the over-funding of superannuation and the net financing requirement of the Australian National University.

(d) A tolerance limit equal to two per cent of NFPS cash receipts from operating activities applies to the movement between the LCA nomination and budget estimate, and again between the budget estimate and outcome.

STATEMENT 10: HISTORICAL AUSTRALIAN GOVERNMENT DATA

This statement reports historical data for the Australian Government fiscal aggregates across the general government, public non-financial corporations and non-financial public sectors.

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Statement 10 reports historical data for the Australian Government fiscal aggregates across the general government, public non-financial corporations and non-financial public sectors.

DATA SOURCES

Data are sourced from Australian Government *Final Budget Outcomes*, the Australian Bureau of Statistics (ABS) and Australian Government *Consolidated Financial Statements*.

- Accrual data from 1996-97 onwards and cash data, net debt data, net financial worth data and net worth data from 1999-2000 onwards are sourced from Australian Government *Final Budget Outcomes*. Back-casting adjustments for accounting classification changes and other revisions have been made from 1998-1999 onwards where applicable.

- Cash data prior to 1999-2000 are sourced from ABS data, which have been calculated using methodology consistent with that used for later years in ABS cat. no. 5512.0 *Government Finance Statistics*.

- Net debt data prior to 1999-2000 are from ABS cat. no. 5512.0 *Government Finance Statistics 2003-04* in 1998-99, ABS cat. no. 5501.0 *Government Financial Estimates 1999-2000* and ABS cat. no. 5513.0 *Public Sector Financial Assets and Liabilities 1998* in 1987-88 to 1997-98, and Treasury estimates (see Treasury's *Economic Roundup,* Spring 1996, pages 97-103) prior to 1987-88.

COMPARABILITY OF DATA ACROSS YEARS

The data set contains a number of structural breaks owing to accounting classification differences and changes to the structure of the budget which cannot be eliminated through back-casting because of data limitations. These breaks can affect the comparability of data across years, especially when the analysis is taken over a large number of years. Specific factors causing structural breaks include:

- from 2005-06 onwards, underlying Government Finance Statistics (GFS) data are provided by agencies in accordance with Australian Equivalents to International Financial Reporting Standards (AEIFRS). Prior to 2005-06, underlying GFS data are based on data provided by agencies in accordance with Australian Accounting Standards (AAS);

- most recent accounting classification changes that require revisions to the historical series have been back-cast (where applicable) to 1998-1999, ensuring that data are consistent across the accrual period from 1998-1999 onwards. However, because of data limitations, these changes have not been back-cast to earlier years;
- prior to 1999-2000, Australian Government general government sector debt instruments are valued at historic cost, whereas from 1999-2000 onwards they are valued at market prices (consistent with accrual GFS standards). This affects net debt and net interest payments;
- cash data up to and including 1997-98 are calculated under a cash accounting framework, while cash data from 1998-99 onwards is derived from an accrual accounting framework.[1] Although the major methodological differences associated with the move to the accrual framework have been eliminated through back-casting, comparisons across the break may still be affected by changes to some data sources and collection methodologies;
- adjustments in the coverage of agencies included in the accounts of the different sectors. These include the reclassification of Central Banking Authorities from the general government to the public financial corporations sector in 1998-99, and subsequent back-casting to account for this change;
- changes in arrangements for transfer payments, where tax concessions or rebates have been replaced by payments through the social security system. This has the effect of increasing both cash receipts and payments, as compared with earlier periods, but not changing cash balances. Changes in the opposite direction (tax expenditures replacing payments) reduce both cash payments and receipts; and
- classification differences in the data relating to the period prior to 1976-77 (which means that earlier data may not be entirely consistent with data for 1976-77 onwards).

REVISIONS TO PREVIOUSLY PUBLISHED DATA

Under the accrual GFS framework and generally under AAS, flows are recorded in the period in which they occurred. As a result, prior period outcomes may be revised for classification changes relating to information that could reasonably have been expected to be known in the past, is material in at least one of the affected periods, and can be reliably assigned to the relevant period(s).

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1 Prior to the 2008-09 Budget, cash data calculated under the cash accounting framework was used up to and including 1998-99. In the 2008-09 Budget, cash data prior to 1998-99 has been replaced by ABS data derived from the accrual framework.

REVISIONS SINCE THE 2012-13 MYEFO

The 2013-14 Budget includes revisions to the historical series to reflect the reclassification of prepayments from non-financial assets (AAS treatment) to financial assets (ABS GFS treatment). The adoption of the ABS GFS treatment ensures consistency with data provided to the IMF for the International Financial Statistics database. This change only affects net financial worth for the general government sector and is now back-cast in the historical series for all published periods.

In addition, the revision of accounting standard AASB 119 *Employee Benefits* requires entities to change from applying the expected return on superannuation defined benefit plan assets to the government bond rate when calculating the superannuation interest cost. This change increases the superannuation interest expense and has a negative impact on the fiscal balance for the general government sector.

DEFLATING REAL SPENDING GROWTH BY THE CONSUMER PRICE INDEX

The 2013-14 Budget, including the historical series, calculates real spending growth using the Consumer Price Index (CPI) as the deflator. This is also the benchmark against which the Government's fiscal strategy is based. Prior to the 2008-09 Budget the non-farm GDP (NFGDP) deflator was used and has therefore been shown in this statement for comparative purposes.

The use of the CPI, rather than the non-farm GDP deflator, provides a more accurate depiction of real government spending growth, especially in the current economic climate. The non-farm GDP deflator incorporates fluctuations in global commodity prices which are not relevant for Government expenditures. Therefore, deflating government spending by the non-farm GDP deflator distorts trends in real spending growth.

Table 1: Australian Government general government sector receipts, payments, net Future Fund earnings and underlying cash balance(a)

	Receipts(b)		Payments(c)				Net Future Fund earnings	Underlying cash balance(d)	
	$m	Per cent of GDP	$m	Per cent real growth (CPI)	Per cent real growth (NFGDP deflator)(f)	Per cent of GDP	$m	$m	Per cent of GDP
1970-71	8,290	20.6	7,389	na	na	18.3	-	901	2.2
1971-72	9,135	20.5	8,249	4.1	4.7	18.6	-	886	2.0
1972-73	9,735	19.6	9,388	7.7	7.8	18.9	-	348	0.7
1973-74	12,228	20.3	11,078	4.2	3.6	18.4	-	1,150	1.9
1974-75	15,643	22.0	15,463	19.9	14.5	21.7	-	181	0.3
1975-76	18,727	22.5	20,225	15.7	13.5	24.3	-	-1,499	-1.8
1976-77	21,890	22.8	23,157	0.6	1.9	24.1	-	-1,266	-1.3
1977-78	24,019	22.9	26,057	2.7	3.3	24.8	-	-2,037	-1.9
1978-79	26,129	22.0	28,272	0.3	2.8	23.8	-	-2,142	-1.8
1979-80	30,321	22.5	31,642	1.5	2.1	23.5	-	-1,322	-1.0
1980-81	35,993	23.6	36,176	4.6	3.6	23.7	-	-184	-0.1
1981-82	41,499	23.6	41,151	2.9	0.5	23.4	-	348	0.2
1982-83	45,463	24.0	48,810	6.3	6.2	25.8	-	-3,348	-1.8
1983-84	49,981	23.4	56,990	9.4	9.7	26.7	-	-7,008	-3.3
1984-85	58,817	25.0	64,853	9.1	8.4	27.5	-	-6,037	-2.6
1985-86	66,206	25.4	71,328	1.5	3.4	27.4	-	-5,122	-2.0
1986-87	74,724	26.2	77,158	-1.1	0.8	27.0	-	-2,434	-0.9
1987-88	83,491	25.7	82,039	-0.9	-0.3	25.3	-	1,452	0.4
1988-89	90,748	24.7	85,326	-3.1	-4.3	23.2	-	5,421	1.5
1989-90	98,625	24.4	92,684	0.6	1.7	22.9	-	5,942	1.5
1990-91	100,227	24.1	100,665	3.1	3.8	24.2	-	-438	-0.1
1991-92	95,840	22.6	108,472	5.7	6.0	25.6	-	-12,631	-3.0
1992-93	97,633	22.0	115,751	5.6	5.9	26.0	-	-18,118	-4.1
1993-94	103,824	22.2	122,009	3.5	4.3	26.1	-	-18,185	-3.9
1994-95	113,458	22.9	127,619	1.4	2.6	25.7	-	-14,160	-2.9
1995-96	124,429	23.5	135,538	1.9	3.3	25.6	-	-11,109	-2.1
1996-97	133,592	24.0	139,689	1.7	1.5	25.1	-	-6,099	-1.1
1997-98	140,736	23.9	140,587	0.6	-0.6	23.9	-	149	0.0
1998-99	152,063	24.5	148,175	4.1	4.7	23.8	-	3,889	0.6
1999-00	166,199	25.1	153,192	1.0	0.8	23.1	-	13,007	2.0
2000-01	182,996	25.9	177,123	9.1	10.7	25.1	-	5,872	0.8
2001-02	187,588	24.8	188,655	3.5	4.2	25.0	-	-1,067	-0.1
2002-03	204,613	25.5	197,243	1.4	1.6	24.6	-	7,370	0.9
2003-04	217,775	25.3	209,785	3.9	2.9	24.4	-	7,990	0.9
2004-05	235,984	25.6	222,407	3.5	1.9	24.1	-	13,577	1.5
2005-06	255,943	25.7	240,136	4.6	2.8	24.1	51	15,757	1.6
2006-07	272,637	25.2	253,321	2.5	0.6	23.4	2,127	17,190	1.6
2007-08	294,917	25.1	271,843	3.8	2.7	23.1	3,319	19,754	1.7
2008-09	292,600	23.3	316,046	12.7	10.3	25.2	3,566	-27,013	-2.2
2009-10	284,662	22.0	336,900	4.2	5.6	26.1	2,256	-54,494	-4.2
2010-11	302,024	21.5	346,102	-0.4	-3.1	24.7	3,385	-47,463	-3.4

Table 1: Australian Government general government sector receipts, payments, net Future Fund earnings and underlying cash balance[(a)] (continued)

	Receipts(b)		Payments(c)				Net Future Fund earnings	Underlying cash balance(d)	
	$m	Per cent of GDP	$m	Per cent real growth (CPI)	Per cent real growth (NFGDP deflator)(f)	Per cent of GDP	$m	$m	Per cent of GDP
2011-12	329,874	22.4	371,032	4.8	5.4	25.2	2,203	-43,360	-2.9
2012-13(e)	350,410	23.0	367,286	-3.2	-1.1	24.2	2,501	-19,377	-1.3
2013-14(e)	**375,993**	**23.5**	**391,198**	**4.3**	**4.3**	**24.5**	**2,838**	**-18,043**	**-1.1**
2014-15(e)	401,171	23.9	409,149	2.2	2.7	24.4	2,910	-10,888	-0.6
2015-16(p)	428,931	24.3	424,969	1.4	1.5	24.0	3,112	849	0.0
2016-17(p)	453,642	24.4	443,748	1.9	2.1	23.8	3,304	6,591	0.4

(a) Data have been revised in the 2013-14 Budget to improve accuracy and comparability through time.
(b) Receipts are equal to receipts from operating activities and sales of non-financial assets.
(c) Payments are equal to payments for operating activities, purchases of non-financial assets and net acquisition of assets under finance leases.
(d) Underlying cash balance is equal to receipts less payments, less net Future Fund earnings. For the purposes of consistent comparison with years prior to 2005-06, net Future Fund earnings should be added back to the underlying cash balance.
(e) Estimates.
(f) Real spending growth using the non-farm GDP deflator has not been used as the relevant measure of real spending growth since 2007-08, and is included for comparative purposes only.
(p) Projections.

Table 2: Australian Government general government sector taxation receipts, non-taxation receipts and total receipts[(a)]

	Taxation receipts		Non-taxation receipts		Total receipts(b)	
	$m	Per cent of GDP	$m	Per cent of GDP	$m	Per cent of GDP
1970-71	7,193	17.8	1,097	2.7	8,290	20.6
1971-72	7,895	17.8	1,240	2.8	9,135	20.5
1972-73	8,411	16.9	1,324	2.7	9,735	19.6
1973-74	10,832	18.0	1,396	2.3	12,228	20.3
1974-75	14,141	19.9	1,502	2.1	15,643	22.0
1975-76	16,920	20.3	1,807	2.2	18,727	22.5
1976-77	19,714	20.5	2,176	2.3	21,890	22.8
1977-78	21,428	20.4	2,591	2.5	24,019	22.9
1978-79	23,409	19.7	2,720	2.3	26,129	22.0
1979-80	27,473	20.4	2,848	2.1	30,321	22.5
1980-81	32,641	21.4	3,352	2.2	35,993	23.6
1981-82	37,880	21.6	3,619	2.1	41,499	23.6
1982-83	41,025	21.7	4,438	2.3	45,463	24.0
1983-84	44,849	21.0	5,132	2.4	49,981	23.4
1984-85	52,970	22.5	5,847	2.5	58,817	25.0
1985-86	58,841	22.6	7,365	2.8	66,206	25.4
1986-87	66,467	23.3	8,257	2.9	74,724	26.2
1987-88	75,076	23.1	8,415	2.6	83,491	25.7
1988-89	83,452	22.7	7,296	2.0	90,748	24.7
1989-90	90,773	22.4	7,852	1.9	98,625	24.4
1990-91	92,739	22.3	7,488	1.8	100,227	24.1
1991-92	87,364	20.6	8,476	2.0	95,840	22.6
1992-93	88,760	20.0	8,873	2.0	97,633	22.0
1993-94	93,362	20.0	10,462	2.2	103,824	22.2
1994-95	104,921	21.1	8,537	1.7	113,458	22.9
1995-96	115,700	21.8	8,729	1.6	124,429	23.5
1996-97	124,559	22.4	9,033	1.6	133,592	24.0
1997-98	130,984	22.2	9,752	1.7	140,736	23.9
1998-99	138,420	22.3	13,643	2.2	152,063	24.5
1999-00	151,313	22.9	14,887	2.2	166,199	25.1
2000-01	170,354	24.1	12,641	1.8	182,996	25.9
2001-02	175,108	23.2	12,481	1.7	187,588	24.8
2002-03	192,131	24.0	12,482	1.6	204,613	25.5
2003-04	206,091	24.0	11,683	1.4	217,775	25.3
2004-05	223,314	24.2	12,669	1.4	235,984	25.6
2005-06	241,215	24.2	14,728	1.5	255,943	25.7
2006-07	257,392	23.8	15,245	1.4	272,637	25.2
2007-08	278,376	23.7	16,540	1.4	294,917	25.1
2008-09	272,627	21.7	19,973	1.6	292,600	23.3
2009-10	260,973	20.2	23,689	1.8	284,662	22.0
2010-11	280,839	20.0	21,185	1.5	302,024	21.5
2011-12	309,943	21.0	19,931	1.4	329,874	22.4
2012-13(e)	326,297	21.5	24,113	1.6	350,410	23.0
2013-14(e)	**354,854**	**22.2**	**21,140**	**1.3**	**375,993**	**23.5**
2014-15(e)	377,751	22.5	23,419	1.4	401,171	23.9
2015-16(p)	405,809	23.0	23,121	1.3	428,931	24.3
2016-17(p)	431,494	23.2	22,149	1.2	453,642	24.4

(a) Data have been revised in the 2013-14 Budget to improve accuracy and comparability through time.
(b) Receipts are equal to receipts from operating activities and sales of non-financial assets.
(e) Estimates.
(p) Projections.

Table 3: Australian Government general government sector net debt and net interest payments(a)

	Net debt(b)		Net interest payments(c)	
	$m	Per cent of GDP	$m	Per cent of GDP
1970-71	344	0.9	-189	-0.5
1971-72	-496	-1.1	-245	-0.6
1972-73	-790	-1.6	-252	-0.5
1973-74	-1,851	-3.1	-286	-0.5
1974-75	-1,901	-2.7	-242	-0.3
1975-76	-341	-0.4	-330	-0.4
1976-77	898	0.9	-62	-0.1
1977-78	2,896	2.8	4	0.0
1978-79	4,983	4.2	254	0.2
1979-80	6,244	4.6	440	0.3
1980-81	6,356	4.2	620	0.4
1981-82	5,919	3.4	680	0.4
1982-83	9,151	4.8	896	0.5
1983-84	16,015	7.5	1,621	0.8
1984-85	21,896	9.3	2,813	1.2
1985-86	26,889	10.3	3,952	1.5
1986-87	29,136	10.2	4,762	1.7
1987-88	27,344	8.4	4,503	1.4
1988-89	21,981	6.0	4,475	1.2
1989-90	16,123	4.0	4,549	1.1
1990-91	16,915	4.1	3,636	0.9
1991-92	31,041	7.3	3,810	0.9
1992-93	55,218	12.4	3,986	0.9
1993-94	70,223	15.0	5,628	1.2
1994-95	83,492	16.8	7,292	1.5
1995-96	95,831	18.1	8,861	1.7
1996-97	96,281	17.3	9,489	1.7
1997-98	82,935	14.1	8,279	1.4
1998-99	72,065	11.6	8,649	1.4
1999-00	53,869	8.1	7,514	1.1
2000-01	42,719	6.0	6,195	0.9
2001-02	38,180	5.1	5,352	0.7
2002-03	29,047	3.6	3,758	0.5
2003-04	22,639	2.6	3,040	0.4
2004-05	10,741	1.2	2,502	0.3
2005-06	-4,531	-0.5	2,303	0.2
2006-07	-29,150	-2.7	228	0.0
2007-08	-44,820	-3.8	-1,015	-0.1
2008-09	-16,148	-1.3	-1,196	-0.1
2009-10	42,283	3.3	2,386	0.2
2010-11	84,551	6.0	4,608	0.3
2011-12	147,334	10.0	6,609	0.4
2012-13(e)	161,603	10.6	8,238	0.5
2013-14(e)	**178,104**	**11.1**	**7,835**	**0.5**
2014-15(e)	191,552	11.4	8,405	0.5
2015-16(p)	191,172	10.8	9,752	0.6
2016-17(p)	185,662	10.0	7,726	0.4

(a) Data have been revised in the 2013-14 Budget to improve accuracy and comparability through time.
(b) Net debt is equal to the sum of deposits held, government securities, loans and other borrowing, minus the sum of cash and deposits, advances paid and investments, loans and placements.
(c) Net interest payments are equal to the difference between interest paid and interest receipts.
(e) Estimates.
(p) Projections.

Table 4: Australian Government general government sector revenue, expenses, net capital investment and fiscal balance[(a)]

	Revenue		Expenses		Net capital investment		Fiscal balance(b)	
	$m	Per cent of GDP	$m	Per cent of GDP	$m	Per cent of GDP	$m	Per cent of GDP
1996-97	141,688	25.4	145,821	26.2	90	0.0	-4,223	-0.8
1997-98	146,820	24.9	148,652	25.2	147	0.0	-1,979	-0.3
1998-99	152,106	24.5	146,772	23.6	1,433	0.2	3,901	0.6
1999-00	167,304	25.3	155,558	23.5	-69	0.0	11,815	1.8
2000-01	186,110	26.3	180,094	25.5	8	0.0	6,007	0.8
2001-02	190,488	25.2	193,041	25.6	382	0.1	-2,935	-0.4
2002-03	206,923	25.8	201,259	25.1	287	0.0	5,377	0.7
2003-04	222,168	25.8	215,361	25.1	660	0.1	6,148	0.7
2004-05	242,507	26.3	229,245	24.9	1,034	0.1	12,228	1.3
2005-06	261,238	26.3	242,334	24.4	2,498	0.3	16,406	1.6
2006-07	278,411	25.7	259,276	23.9	2,333	0.2	16,801	1.6
2007-08	303,729	25.8	280,188	23.8	2,593	0.2	20,948	1.8
2008-09	298,933	23.8	324,612	25.9	4,064	0.3	-29,743	-2.4
2009-10	292,767	22.7	340,208	26.3	6,433	0.5	-53,875	-4.2
2010-11	309,890	22.1	356,353	25.4	5,297	0.4	-51,760	-3.7
2011-12	338,109	22.9	378,005	25.6	4,850	0.3	-44,746	-3.0
2012-13(e)	359,961	23.7	381,439	25.1	-1,212	-0.1	-20,266	-1.3
2013-14(e)	**387,749**	**24.3**	**398,301**	**24.9**	**2,945**	**0.2**	**-13,497**	**-0.8**
2014-15(e)	411,612	24.5	415,663	24.8	2,204	0.1	-6,255	-0.4
2015-16(p)	438,097	24.8	431,015	24.4	1,126	0.1	5,955	0.3
2016-17(p)	468,569	25.2	454,747	24.4	3,003	0.2	10,819	0.6

(a) Data have been revised in the 2013-14 Budget to improve accuracy and comparability through time.
(b) Fiscal balance is equal to revenue less expenses less net capital investment.
(e) Estimates.
(p) Projections.

Table 5: Australian Government general government sector net worth and net financial worth[(a)]

	Net worth(b)		Net financial worth(c)	
	$m	Per cent of GDP	$m	Per cent of GDP
1999-00	-7,046	-1.1	-67,036	-10.1
2000-01	-6,618	-0.9	-71,876	-10.2
2001-02	-11,655	-1.5	-78,032	-10.3
2002-03	-15,330	-1.9	-82,931	-10.4
2003-04	-1,152	-0.1	-72,389	-8.4
2004-05	14,556	1.6	-58,882	-6.4
2005-06	17,971	1.8	-59,763	-6.0
2006-07	46,351	4.3	-35,696	-3.3
2007-08	70,859	6.0	-14,690	-1.2
2008-09	19,427	1.5	-71,490	-5.7
2009-10	-45,938	-3.6	-144,485	-11.2
2010-11	-95,386	-6.8	-198,787	-14.2
2011-12	-247,208	-16.8	-355,834	-24.1
2012-13(e)	-161,112	-10.6	-271,396	-17.8
2013-14(e)	**-173,458**	**-10.9**	**-286,077**	**-17.9**
2014-15(e)	-175,860	-10.5	-290,933	-17.3
2015-16(p)	-168,182	-9.5	-285,119	-16.1
2016-17(p)	-155,969	-8.4	-275,099	-14.8

(a) Data have been revised in the 2013-14 Budget to improve accuracy and comparability through time.
(b) Net worth is equal to total assets less liabilities.
(c) Net financial worth is equal to financial assets less liabilities.
(e) Estimates.
(p) Projections.

Table 6: Australian Government general government sector accrual taxation revenue, non-taxation revenue and total revenue[(a)]

	Taxation revenue		Non-taxation revenue		Total revenue	
	$m	Per cent of GDP	$m	Per cent of GDP	$m	Per cent of GDP
1999-00	153,408	23.2	13,896	2.1	167,304	25.3
2000-01	175,881	24.9	10,228	1.4	186,110	26.3
2001-02	178,210	23.6	12,278	1.6	190,488	25.2
2002-03	195,203	24.4	11,720	1.5	206,923	25.8
2003-04	209,959	24.4	12,209	1.4	222,168	25.8
2004-05	229,943	25.0	12,564	1.4	242,507	26.3
2005-06	245,716	24.7	15,522	1.6	261,238	26.3
2006-07	262,511	24.2	15,900	1.5	278,411	25.7
2007-08	286,229	24.4	17,500	1.5	303,729	25.8
2008-09	278,653	22.2	20,280	1.6	298,933	23.8
2009-10	268,000	20.7	24,767	1.9	292,767	22.7
2010-11	289,005	20.6	20,885	1.5	309,890	22.1
2011-12	316,779	21.5	21,330	1.4	338,109	22.9
2012-13(e)	338,727	22.3	21,234	1.4	359,961	23.7
2013-14(e)	**366,664**	**23.0**	**21,085**	**1.3**	**387,749**	**24.3**
2014-15(e)	390,606	23.3	21,006	1.3	411,612	24.5
2015-16(p)	415,974	23.5	22,122	1.3	438,097	24.8
2016-17(p)	445,595	23.9	22,974	1.2	468,569	25.2

(a) Data have been revised in the 2013-14 Budget to improve accuracy and comparability through time.
(e) Estimates.
(p) Projections.

Table 7: Australian Government cash receipts, payments and surplus by institutional sector ($m)[(a)]

	General government			Public non-financial corporations			Non-financial public sector		
	Receipts(b)	Payments(c)	Underlying cash balance(d)	Receipts(b)	Payments(c)	Cash surplus(d)	Receipts(b)	Payments(c)	Underlying cash balance(d)
1988-89	90,748	85,326	5,421	4,177	6,035	257	93,923	90,312	5,678
1989-90	98,625	92,684	5,942	3,926	11,322	-5,261	101,495	102,883	681
1990-91	100,227	100,665	-438	4,804	9,351	-2,139	103,837	108,808	-2,577
1991-92	95,840	108,472	-12,631	3,899	7,713	101	97,937	114,369	-12,530
1992-93	97,633	115,751	-18,118	4,385	7,819	-196	100,512	122,042	-18,314
1993-94	103,824	122,009	-18,185	5,178	6,476	1,482	106,747	126,214	-16,703
1994-95	113,458	127,619	-14,160	5,262	7,318	1,956	116,751	132,965	-12,204
1995-96	124,429	135,538	-11,109	4,927	8,190	-527	126,593	140,963	-11,636
1996-97	133,592	139,689	-6,099	4,782	7,373	473	135,259	143,948	-5,626
1997-98	140,736	140,587	149	6,238	7,923	1,119	144,517	145,985	1,268
1998-99	152,063	148,175	3,889	na	na	-353	na	na	3,536
1999-00	166,199	153,192	13,007	na	na	-2,594	na	na	10,413
2000-01	182,996	177,123	5,872	na	na	391	na	na	6,264
2001-02	187,588	188,655	-1,067	na	na	1,210	na	na	143
2002-03	204,613	197,243	7,370	27,386	26,105	1,280	na	na	8,650
2003-04	217,775	209,785	7,990	27,718	26,142	1,575	238,236	227,099	9,564
2004-05	235,984	222,407	13,577	29,621	28,071	1,550	257,946	241,577	15,128
2005-06	255,943	240,136	15,757	30,875	31,874	-999	278,254	263,445	14,759
2006-07	272,637	253,321	17,190	16,882	18,641	-1,759	285,336	267,778	15,431
2007-08	294,917	271,843	19,754	7,758	8,232	-473	300,503	277,903	19,281
2008-09	292,600	316,046	-27,013	7,987	8,960	-973	297,421	321,841	-27,986
2009-10	284,662	336,900	-54,494	8,419	9,341	-922	290,681	343,841	-55,416
2010-11	302,024	346,102	-47,463	8,558	9,733	-1,175	308,258	353,511	-48,638
2011-12	329,874	371,032	-43,360	8,845	10,847	-2,002	336,122	379,282	-45,362
2012-13(e)	350,410	367,286	-19,377	10,247	13,140	-2,892	358,366	378,133	-22,269
2013-14(e)	**375,993**	**391,198**	**-18,043**	**10,805**	**15,667**	**-4,862**	**385,029**	**405,096**	**-22,905**
2014-15(e)	401,171	409,149	-10,888	na	na	na	na	na	na
2015-16(p)	428,931	424,969	849	na	na	na	na	na	na
2016-17(p)	453,642	443,748	6,591	na	na	na	na	na	na

(a) Data have been revised in the 2013-14 Budget to improve accuracy and comparability through time.
(b) Receipts are equal to receipts from operating activities and sales of non-financial assets.
(c) Payments are equal to payments for operating activities, purchases of non-financial assets and net acquisition of assets under finance leases.
(d) These items exclude net Future Fund earnings from 2005-06 onwards. Net Future Fund earnings are shown in Table 1.
(e) Estimates.
(p) Projections.
na Data not available.

Table 8: Australian Government accrual revenue, expenses and fiscal balance by institutional sector ($m)[(a)]

	General government			Public non-financial corporations			Non-financial public sector		
	Revenue	Expenses	Fiscal balance(b)	Revenue	Expenses	Fiscal balance(b)	Revenue	Expenses	Fiscal balance(b)
1996-97	141,688	145,821	-4,223	27,431	26,015	-331	na	na	-4,554
1997-98	146,820	148,652	-1,979	29,618	26,999	2,360	na	na	387
1998-99	152,106	146,772	3,901	27,687	26,088	-816	175,891	168,963	3,080
1999-00	167,304	155,558	11,815	25,485	23,542	1,062	188,841	173,889	12,983
2000-01	186,110	180,094	6,007	25,869	24,762	-826	207,372	200,184	5,248
2001-02	190,488	193,041	-2,935	26,638	25,341	793	212,518	213,693	-2,060
2002-03	206,923	201,259	5,377	24,339	22,916	1,975	226,135	219,129	7,314
2003-04	222,168	215,361	6,148	25,449	23,444	2,143	241,873	233,077	8,275
2004-05	242,507	229,245	12,228	26,965	25,191	1,473	263,587	248,549	13,703
2005-06	261,238	242,334	16,406	28,143	29,531	-2,442	282,597	264,923	14,121
2006-07	278,411	259,276	16,801	15,443	16,360	-1,763	290,067	271,735	15,153
2007-08	303,729	280,188	20,948	6,854	6,686	-584	309,215	285,426	20,443
2008-09	298,933	324,612	-29,743	6,998	7,576	-1,495	303,733	329,948	-31,195
2009-10	292,767	340,208	-53,875	7,288	7,297	-1,079	298,412	344,893	-53,985
2010-11	309,890	356,353	-51,760	7,563	7,787	-1,446	315,688	362,122	-52,952
2011-12	338,109	378,005	-44,746	8,046	8,238	-2,158	344,507	384,329	-46,639
2012-13(e)	359,961	381,439	-20,266	9,055	9,828	-3,143	367,233	389,484	-23,409
2013-14(e)	**387,749**	**398,301**	**-13,497**	**9,973**	**11,677**	**-5,218**	**396,205**	**408,462**	**-18,716**
2014-15(e)	411,612	415,663	-6,255	na	na	na	na	na	na
2015-16(p)	438,097	431,015	5,955	na	na	na	na	na	na
2016-17(p)	468,569	454,747	10,819	na	na	na	na	na	na

(a) Data have been revised in the 2013-14 Budget to improve accuracy and comparability through time.
(b) Fiscal balance is equal to revenue less expenses less net capital investment. Net capital investment is not shown in this table.
(e) Estimates.
(p) Projections.
na Data not available.