BUDGET

2014-15

Budget Strategy and Outlook
Budget Paper No. 1
2014-15

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Notes

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

- 'real' means adjusted for the effect of inflation;
- real growth in expenses and payments is calculated using the Consumer Price Index (CPI) as the deflator;
- the Budget year refers to 2014-15, while the forward years refer to 2015-16, 2016-17 and 2017-18; 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nfp	not for publication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 2014-15* 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 2014-15 Budget marks a major step by the Government to transform the role of government in people's lives.

This Budget is about asking all Australians — from households to businesses and the public sector — to make a contribution today to repair the budget and build a stronger, more prosperous future for all.

The Budget will redirect taxpayers' dollars from spending that is consumed today to productive investment for tomorrow. It will do this while supporting the most vulnerable, and taking significant steps towards ensuring that government can live within its means. The decisions in this Budget will move Australia towards equality of opportunity for all.

The Budget has been set in the context of slightly below trend growth for the Australian economy and the expectation that unemployment will remain elevated. Investment in resources projects is still expected to fall and to detract significantly from growth. Resources exports will rise as completed projects come on line, while the household sector will strengthen as it responds to low interest rates.

Looking to the longer term, population ageing coupled with falling terms of trade from historic highs will make it difficult to maintain the growth in living standards to which Australians are accustomed.

Given this outlook, the Budget balances the need to build our growth potential, while not placing additional near term pressure on the economy. The Budget delivers an $11.6 billion Infrastructure Growth Package that will contribute to $125 billion of additional infrastructure, including incentives to encourage asset recycling as a catalyst for unlocking significant new infrastructure investment. When construction projects supported by the Government are completed, they will add around 1 percentage point to annual GDP.

The Budget also delivers a $20 billion Medical Research Future Fund that will ensure Australia can drive world leading medical research discoveries needed to underpin the health system of the future, fundamental reforms of the higher education sector, and measures to support workforce participation.

The underlying cash deficit is projected to be $60 billion over four years to 2017-18, compared to $123 billion over four years at the *2013-14 Mid-Year Economic and Fiscal Outlook* (MYEFO). This substantial improvement is built off a reduction in average annual real payments growth from 2.6 per cent to 0.8 per cent.

By 2017-18 the underlying cash deficit will have fallen to $2.8 billion (0.2 per cent of GDP), and the Government's finances are projected to be on a clear path to a credible surplus. Medium-term projections show a surplus of well over one per cent of GDP by 2024-25, even with future tax relief, and with average annual real payments growth of 2.7 per cent, compared to 3.7 per cent at MYEFO.

With the changes in this Budget debt would be $389 billion in a decade; $277 billion lower than the projection of $667 billion at MYEFO, and assuming future tax relief.

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STATEMENT 1: BUDGET OVERVIEW

INTRODUCTION

In 2014-15 the Australian economy is forecast to grow slightly below trend, with a large fall in resources investment partly offset by a boost from higher resources exports and the household sector's response to low interest rates. The unemployment rate is forecast to reach 6¼ per cent by the June quarter 2015 and remain at this rate to the end of 2015-16.

The underlying cash deficit in 2014-15 is expected to be $29.8 billion (1.8 per cent of GDP), falling to $2.8 billion in 2017-18 (Table 1).

Table 1: Budget aggregates

	Actual	Estimates			Projections		
	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	Total(a)
Underlying cash balance ($b)(b)	**-18.8**	**-49.9**	**-29.8**	**-17.1**	**-10.6**	**-2.8**	**-110.1**
Per cent of GDP	-1.2	-3.1	-1.8	-1.0	-0.6	-0.2	
Fiscal balance ($b)	**-23.5**	**-45.1**	**-25.9**	**-12.2**	**-6.6**	**1.0**	**-88.7**
Per cent of GDP	-1.5	-2.8	-1.6	-0.7	-0.4	0.1	

(a) Total is equal to the sum of amounts from 2013-14 to 2017-18.
(b) Excludes net Future Fund earnings.

Without the consolidation outlined here, the budget would have remained in deficit for at least the next decade — a total of 16 years of deficits — leaving Australia vulnerable to external shocks, ill-equipped to cope with population ageing, and increasingly reliant on future generations to pay off our debt. This situation would have arisen even if Australia achieved a further 10 years of uninterrupted economic activity — resulting in an unprecedented 33 years of economic growth.

By redirecting spending to more productive ends this Budget has enabled significant reforms, such as the Asset Recycling Fund, Higher Education deregulation and the Medical Research Future Fund. Spending growth has been significantly reduced and the net impact of policy decisions has been to reduce the deficit by $36 billion over the forward estimates.

The budget is on a clear track to surplus, with a small deficit of $2.8 billion in 2017-18 and a surplus of well over 1 per cent of GDP by 2024-25. Commonwealth Government Securities on issue will fall from the MYEFO estimate of $667 billion in 2023-24 to $389 billion, assuming future tax relief. The size of Government is projected to fall with spending as a share of the economy expected to be 24.4 per cent in 2023-24, down from 26.5 per cent projected in the MYEFO.

ECONOMIC OUTLOOK

The Australian economy is in the midst of a major transformation, moving from growth led by investment in resources projects to broader-based drivers of activity in non-resources sectors. This is occurring at a time when the economy has generally been growing below its trend rate and the unemployment rate has been rising.

Since MYEFO, the near-term outlook for the household sector has improved. Leading indicators of dwelling investment are consistent with rising activity, while household consumption and retail trade outcomes have improved recently, consistent with gains in household wealth. This is partly offset by weaker business investment intentions, particularly for non-resources sectors.

The outlook for the resources sector is largely unchanged from MYEFO. Resources investment is still expected to detract significantly from growth through until at least 2015-16, as reflected in the outlook for investment in engineering construction which is forecast to decline by 13 per cent in 2014-15 and 20½ per cent in 2015-16. Rising resources exports are expected to only partially offset the impact on growth. Overall, real GDP is forecast to continue growing below trend at 2½ per cent in 2014-15, before accelerating to near-trend growth of 3 per cent in 2015-16.

Nominal GDP growth is forecast to remain weak, growing by 3 per cent in 2014-15 and 4¾ per cent in 2015-16. The weakness of nominal GDP growth reflects the sharp fall in prices for Australia's key commodity exports since the start of the year and a further expected decline in Australia's terms of trade. Subdued domestic price growth, in the absence of wage pressures, is also weighing on nominal GDP growth.

The Australian economy is also facing considerable challenges over the medium- to- longer-term. The decline in Australia's terms of trade will likely extend beyond the forecast period, while the rising proportion of older Australians will lead to lower labour force participation, further constraining per capita income growth. Confronting these challenges will require faster productivity growth.

This Budget will support stronger and more sustainable economic growth in the medium term and does not place further pressure on the economy's transition to broader-based growth in the near term. Government expenditure is being redirected to more productive uses, such as expanding infrastructure investment, and the Government is introducing measures to encourage greater workforce participation. By getting government finances under control and laying out a credible plan for fiscal repair, the Government is providing businesses and households with the certainty they need to invest in their future. This Budget will also help to keep interest rates lower over time by reducing the public sector's call on resources, while rebuilding the Government's flexibility to respond to adverse shocks in the context of a volatile global economy.

The outlook for the global economy has improved gradually since the end of 2013, led by a pickup in activity in advanced economies, most notably the United States. While activity has moderated in emerging market economies, these economies are still expected to contribute nearly three quarters of global growth over the forecast period.

There are both upside and downside risks to the economic outlook. Most notably, non-resources business investment could pick up earlier and more rapidly than expected following a prolonged period of caution, while some trade-exposed sectors would benefit from a lower exchange rate, which is historically an outcome associated with a fall in the terms of trade. Conversely, the fall in resources investment is likely to be lumpy, while the associated rise in exports also has uncertain timing. International risks are more balanced than previously, although still to the downside as economies continue to deal with legacy issues from the financial crisis.

Table 2: Major economic parameters[(a)]

	Outcomes	Forecasts			Projections	
	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Real GDP	2.6	2 3/4	2 1/2	3	3 1/2	3 1/2
Employment	1.2	3/4	1 1/2	1 1/2	2 1/4	2
Unemployment rate	5.6	6	6 1/4	6 1/4	6	5 3/4
Consumer price index	2.4	3 1/4	2 1/4	2 1/2	2 1/2	2 1/2
Wage price index	2.9	2 3/4	3	3	2 3/4	3
Nominal GDP	2.5	4	3	4 3/4	5	5

(a) Year average unless otherwise stated. In 2013-14, 2014-15 and 2015-16 employment, wages and the consumer price index are through the year growth to the June quarter and the unemployment rate is the rate for the June quarter.

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

FISCAL STRATEGY AND OUTLOOK

The medium-term fiscal strategy of achieving budget surpluses, on average, over the course of the economic cycle is underpinned by the Government's objectives to:

- invest in a stronger economy by redirecting Government spending to quality investment to boost productivity and workforce participation;
- reduce the Government's share of the economy over time in order to free up resources for private investment, with payments to GDP falling and paying down debt; and
- strengthen the Government's balance sheet by improving net financial worth over time.

The 2014-15 Budget repair strategy is designed to deliver budget surpluses building to at least 1 per cent of GDP by 2023-24 with the Government more than offsetting all new spending measures with decisions to reduce spending elsewhere in the budget.

Any variations in the budget from higher revenue or lower expenses will be banked to the bottom line rather than spent. The Government's clear path back to surplus is underpinned by decisions, rather than an assumption about future policy.

The underlying cash deficit is expected to be $29.8 billion in 2014-15 (1.8 per cent of GDP), compared to a deficit of $33.9 billion projected in MYEFO. The deficit is expected to fall to $2.8 billion (0.2 per cent of GDP) in 2017-18. The underlying cash balance is expected to reach surplus around the end of the decade, and by 2023-24 the surplus will reach more than 1 per cent of GDP.

Excluding GST, tax receipts are expected to be lower by $2.6 billion in 2013-14 and $2.4 billion over the four years to 2016-17. Policy decisions since the 2013-14 MYEFO are expected to increase total receipts by $0.7 billion in 2014-15 and $5.4 billion over the four years to 2016-17. Abstracting from policy decisions, there has been a small overall downward revision to total tax receipts (excluding GST) of $2.6 billion in 2013-14 and $7.4 billion over the four years to 2016-17.

Since the 2013-14 MYEFO, estimated cash payments for 2014-15 have decreased by $1.2 billion, reflecting decreased payments due to new policy decisions of $1.0 billion and decreased payments due to parameter and other variations of $0.2 billion.

In 2014-15, net debt for the Australian Government general government sector is estimated to be $226 billion (13.9 per cent of GDP), compared with the 2013-14 MYEFO estimate of $231 billion (14.2 per cent of GDP). By the end of the forward estimates, net debt as a percentage of GDP is expected to reach 14.0 per cent.

Commonwealth Government Securities on issue in 2023-24 are expected to reduce to $389 billion, even when future tax relief is assumed, compared to the projection of $667 billion in MYEFO before the Government's actions to repair the budget.

BUDGET STRATEGY AND PRIORITIES

The 2014-15 Budget takes a significant step in transforming the role of government. It is part of the evolution toward providing equality of opportunity for all Australians. The Budget redirects taxpayers' dollars from unaffordable consumption today to productive investment for the future. It will do this while supporting the most vulnerable, and beginning the task of ensuring the Government can live within its means.

The Budget delivers structural reforms that will facilitate growth in living standards while not placing additional near term pressure on the economy. It will deliver strong surpluses and lower government debt in the medium term. All Australians are being asked to contribute to this task — businesses, state and local governments, high income earners, families, individuals, seniors and workers.

While the Budget is an important step in reforming the size and role of government, it is not the end of the process. A White Paper on the Reform of Australia's Tax System will provide a longer-term considered approach to tax reform that is consistent with the Government's core principles of fairness and simplicity.

The Government has also committed to work with the States and Territories on the development of a White Paper on the Reform of the Federation. The next Intergenerational Report will examine the fiscal implications of Australia's longer-term challenges such as the ageing of the population.

All Australians making a contribution

In this Budget, all Australians have been asked to make a contribution to repairing the Budget and building a stronger, more prosperous future for everyone.

Temporary Budget Repair Levy

From 1 July 2014 until 30 June 2017, there will be a Temporary Budget Repair Levy of 2 per cent on individuals' taxable income above $180,000. This measure will raise an estimated $3.1 billion over the forward estimates period. An individual with taxable income of $300,000 a year will pay an additional $2,400 in tax for each of the next three years.

More targeted transfer payments

The Government's reforms to the transfer system are aimed at improving individuals' ability to participate in the economy. The Government will introduce a number of key reforms to ensure the long term sustainability of the transfer payments system, particularly for the aged and families.

The Government's targeted changes to the Age Pension will not take effect until 2017. The Government will ensure Age Pension incomes continue to rise through time, in line with inflation from September 2017.

Eligibility thresholds for the Commonwealth Seniors Health Card (CSHC) will be indexed from September 2014. However, to ensure the sustainability of the CSHC, the Government will no longer continue with the payment of the Senior Supplement for Commonwealth Seniors Health Card holders from 1 July 2014.

Australians are living longer, healthier lives, with the number of people aged 65 to 84 expected to more than double between 2010 and 2050. Building on the changes of the previous Government to increase the Age Pension age to 67 by 1 July 2023, the Government will continue gradually increasing the age pension age to 70 by 1 July 2035.

Family payments will also be reformed, including by tightening eligibility for Family Tax Benefit Part B (FTB-B). From 1 July 2015 families will no longer receive this payment when their youngest child turns six. In order to give existing recipients time to adjust the Government has introduced a two-year grandfathering to this change. Consistent with the Government's commitment to fairness and supporting the most vulnerable, a new Family Tax Benefit Part A allowance will be introduced for low-income sole parents to assist with this change.

The primary income threshold for eligibility for FTB-B will also be reduced from $150,000 to $100,000 per annum.

Freezing indexation

Indexation of all payment eligibility thresholds will be paused including for family payments, allowances such as Newstart and parenting payment single, and the Private Health Insurance Rebate. Payment rates for family payments will also be paused, as will the indexation of Local Government Financial Assistance Grants and Official Development Assistance (ODA) and 112 government programmes.

The Government will no longer target an increase of ODA to 0.5 per cent of Gross National Income, with this position to be reconsidered when the budget is in a stronger position.

Reducing the footprint of government

The public sector will be streamlined to focus on the areas where Commonwealth Government involvement is necessary.

The Government has an ongoing process that, including Budget measures, has made decisions to abolish 70 bodies, boards, committees and councils, which will create greater efficiencies within the public sector and streamline accountabilities. Rigorous scrutiny of government programmes has seen a reduction in red tape, with 50,000 pages of regulations abolished and more to come.

The Government has previously announced that it will proceed with the sale of Medibank Private. The Government will conduct reviews into future ownership options for Australian Hearing, the Defence Housing Authority, the Australian Securities and Investments Commission Registry function and the Royal Australian Mint.

Reforming agreements with the States

The Commonwealth does not run schools and public hospital systems and is not therefore best placed to drive efficiency in these areas. Commonwealth funding arrangements in these areas have reduced the incentive for States to be more efficient and accountable for their spending and delivery of services, and were unaffordable. This Budget reduces growth in Commonwealth funding of these sectors over the medium-term, generating momentum for longer-term reforms to be considered in the White Paper on the Reform of the Federation and the White Paper on the Reform of Australia's Tax System.

The Budget also ceases some ineffective or duplicative Commonwealth payments to the States. These include National Partnership Agreements for Preventive Health, Improving Public Hospital Services and Certain Concessions for Pensioners and Seniors Card Holders.

Building Australia's future

Infrastructure growth package

The Government is delivering a substantial infrastructure package to support economic growth and improve the long-term productive capacity of the economy.

The Infrastructure Growth Package will take the Government's total investment in transport infrastructure to $50 billion by 2019-20. Total infrastructure investment from Commonwealth, State and local Governments, as well as the private sector, will build to over $125 billion of additional infrastructure.

The package includes an Asset Recycling Initiative that will provide financial incentives to State and Territory Governments to sell existing assets and reinvest the sale proceeds into additional productive economic infrastructure. This initiative has the potential to catalyse close to $40 billion of additional investment and contribute to the creation of a strong pipeline of projects.

In the short- to- medium-term, funding for roads and highways under the Western Sydney Infrastructure Plan, and new investments under the Infrastructure Investment Programme, will support the economy as it transitions away from resources led growth towards broader-based growth in the non-resource sectors.

Additional funds will also be directed to the Black Spots and the Roads to Recovery Programmes. The National Stronger Regions Fund will allow councils and community groups to apply for a share of $200 million each year, over five years, towards the cost of local capital works projects in areas of particular economic stress and community need.

When the $125 billion of total infrastructure investment is completed, it will add around 1 percentage point to annual GDP. This includes over $58 billion of additional infrastructure investment arising from new spending decisions taken in this Budget.

In order to provide a secure and growing source of revenue for Government investment in road funding, biannual indexation of fuel excise will be re-introduced from 1 August 2014. This will raise an additional $2.2 billion over the forward estimates. The additional net revenue will be spent on roads.

Reform of higher education

Higher education has been one of the most successful new export industries to emerge in the last generation, with education now our fourth largest export earner. However, the sector operates in a highly competitive and globalised market, where overseas universities are rapidly building their quality and global reputation.

Full deregulation of the higher education sector will be achieved by removing fee caps and expanding the demand-driven system to bachelor and sub-bachelor courses at all higher education providers. Higher education institutions will be responsible for the setting of course fees.

This change will allow Australian universities to continue to compete with the best in the world by giving them the freedom to innovate, a greater ability to invest in world class research, and the capacity to respond to the needs of students and businesses in terms of choice and quality.

Students will benefit through more accessible higher education supported by the continuation of the Higher Education Loan Programme (HELP) and more courses and institutions receiving Commonwealth support. Higher education providers will be required to direct 20 per cent of additional revenue from increases in new student contributions to a scholarship scheme which will support access for disadvantaged students. To support the sustainability of higher education funding, the Commonwealth's contribution towards a new student's course fees will be reduced by 20 per cent on average and indexed at CPI. For students enrolled on or before 13 May 2014, existing arrangements will be grandfathered and remain in place until the end of 2020.

The Government will also support those learning a trade by providing concessional Trade Support Loans of up to $20,000 over a four year apprenticeship, from 1 July 2014. These loans will assist with the cost of undertaking an apprenticeship, and help them focus on completing a formal trade qualification.

Sustainable and improved health care

The Government is introducing a number of measures which ensure that health spending growth is on a sustainable path.

Savings from health expenditure in this Budget will be redirected towards the establishment of a new capital protected Medical Research Future Fund (the Fund) (see Box 1). Savings will accumulate through time until the balance of the fund reaches $20 billion, which is projected to be in 2019-20, and will make this fund the largest of its kind in the world.

When mature, the Fund will provide a flow of income to double current medical research funding, with an additional $1 billion a year available by 2022-23 to find the discoveries and cures necessary to underpin the health system of the future.

The Fund will help ensure Australia can continue to advance world leading medical research projects, attract and retain first class researchers and deliver improved health outcomes for all Australians. It will also ensure that the Government can maintain its existing level of health investment, while delivering a sustainable health system into the future.

Government savings initiatives in this Budget include the introduction of patient contributions towards the costs of standard GP visits and for imaging and pathology services and a new Medicare Safety Net. The Government is also increasing co-payments for Pharmaceutical Benefits Scheme (PBS) medicines to ensure the scheme remains sustainable into the future. The PBS safety net will protect those most in need and those who need numerous medicines. The Government will also gradually increase eligibility thresholds for the PBS safety net over the next four years for all patients.

Box 1: Medical Research Future Fund

The Government is meeting its commitment on health by investing every dollar from health savings in this Budget into the Medical Research Future Fund (the Fund), until the Fund reaches $20 billion. To achieve this, without delaying prudent changes to improve the sustainability of the health system, the Government is establishing the Fund from 1 January 2015, subject to the passage of health savings legislation. The uncommitted funds in the existing Health and Hospitals Fund will be transferred into the Fund at its inception. The Fund's capital is set to be preserved in perpetuity, while net earnings from the Fund will be distributed to support medical research, including through the National Health and Medical Research Council.

Supporting workforce participation

The Government is encouraging young Australians to either learn or earn by requiring jobseekers up to 30 years of age applying for Newstart or Youth Allowance (Other) to participate in job search and employment service activities for up to an additional six months before receiving any payment. The six-month waiting period will be reduced for those who have already been working for significant periods. At any time while unemployed, jobseekers are able to choose to undertake further study and are able to apply for Youth Allowance (Student) or AUSTUDY.

Building on our election commitment, the Government is also providing scope for around 32,000 mature-aged job seekers each year to re-enter the work force through the Restart programme. This programme provides a wage subsidy of up to $10,000 to employers who hire an eligible mature-aged job seeker on a full-time basis, with this payment being pro-rated for those who are employed on a part-time basis.

The Government will also proceed with a comprehensive Paid Parental Leave scheme — this scheme will encourage and assist women to be able to have a family and remain connected to the workforce.

Facilitating innovation and competitiveness

Business welfare stifles innovation and competitiveness. The Budget continues the evolution towards programmes that facilitate innovation and self-reliance, by reducing and reshaping existing industry assistance programmes into a new Entrepreneurs' Infrastructure Programme that will focus on supporting commercialisation of good ideas, job creation and lifting the capability of small business.

New free trade agreements with Korea and Japan will provide new opportunities for both Australian exporters and consumers. The Korea-Australia Free Trade Agreement gives Australian exporters significantly improved market access, including to the Korean beef market and to legal, accounting, telecommunications, education and financial services.

The Japan-Australia Economic Partnership Agreement also provides improved market access, with more than 97 per cent of Australia's exports to receive preferential access.

Protecting Australia

Protecting the nation is the first responsibility of government. The Government is taking decisive steps to recapitalise Defence after a number of years of underinvestment and deferred funding for major capability projects. In this Budget the Government will bring forward $1.5 billion in spending from 2017-18 to earlier years, and re-invest any efficiencies back into Defence capability.

By implementing Operation Sovereign Borders, the Government has taken strong and immediate action to restore integrity to Australia's borders and stop the boats. This is in contrast to a peak of over 4,000 arrivals in July 2013.

Investment in efficient and effective border management will continue to underpin Australia's national security and future economic prosperity. Australia's border protection services will also be consolidated into a single frontline border agency — the *Australian Border Force* — to enforce our customs and immigration laws and protect our borders.

STATEMENT 2: ECONOMIC OUTLOOK

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

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STATEMENT 2: ECONOMIC OUTLOOK

OVERVIEW

The Australian economy is in the midst of a major transformation, moving from growth led by investment in resources projects to broader-based drivers of activity in the non-resources sectors. This is occurring at a time when the economy has generally been growing below its trend rate and the unemployment rate has been rising. During this transition, the economy is expected to continue to grow slightly below trend and the unemployment rate is expected to rise further to 6¼ per cent by mid-2015.

In this environment, the Government is focused on implementing measures to support growth and jobs while putting in place lasting structural reforms to restore the nation's finances to a sustainable footing. The timing and composition of the new policy decisions mean that the faster pace of consolidation in this Budget does not have a material impact on economic growth over the forecast period, relative to the 2013-14 Mid-Year Economic and Fiscal Outlook (MYEFO).

Since MYEFO, the near-term outlook for the household sector has improved. Leading indicators of dwelling investment are consistent with rising activity, while household consumption and retail trade outcomes have improved recently, consistent with gains in household wealth. This is partly offset by weaker business investment intentions, particularly for non-resources sectors.

The outlook for the resources sector is largely unchanged from MYEFO. Resources investment is still expected to detract significantly from growth through until at least 2015-16, as reflected in the outlook for investment in engineering construction which is forecast to decline by 13 per cent in 2014-15 and 20½ per cent in 2015-16. Rising resources exports are only expected to partially offset the impact on growth. Overall, real GDP is forecast to continue growing below trend at 2½ per cent in 2014-15, before accelerating to near-trend growth of 3 per cent in 2015-16.

The labour market has been subdued since late 2011, characterised by weak employment growth, a falling participation rate and a rising unemployment rate, although outcomes since the beginning of 2014 have been more positive. The unemployment rate is forecast to continue to edge higher, settling around 6¼ per cent, consistent with the outlook for real GDP growth. Consumer price inflation is expected to remain well contained, with moderate wage pressures and the removal of the carbon tax.

The outlook for the global economy has improved gradually since the end of 2013, led by a pickup in activity in advanced economies, most notably the United States. While activity has moderated in emerging market economies, these economies are still expected to contribute nearly three quarters of global growth over the forecast period.

Despite continued solid growth in China, prices for Australia's key commodity exports have fallen sharply since the start of the year. Coal prices are expected to remain weak while iron ore prices are expected to ease further in line with growing world supply. In light of a further expected decline in the terms of trade and subdued domestic price growth, nominal GDP is forecast to remain historically weak, growing by only 3 per cent in 2014-15 before strengthening somewhat to 4¾ per cent in 2015-16.

Sustained softness in nominal GDP growth is a recent phenomenon, emerging over the past two years. Given the importance of nominal GDP to income growth, this continuing weakness contributes to ongoing subdued growth in a number of major areas of revenue.

There are both upside and downside risks to the economic outlook. Most notably, non-resources business investment could pick up earlier and more rapidly than expected following a prolonged period of caution, while some trade-exposed sectors would benefit from a lower exchange rate, which is historically an outcome associated with a fall in the terms of trade. Conversely, the fall in resources investment is likely to be lumpy, while the associated rise in exports also has uncertain timing. International risks are more balanced than previously, though still to the downside as economies continue to deal with legacy issues from the financial crisis.

There is always a degree of uncertainty around the forecasts, which can be estimated based on past errors. Appendix B of Statement 3 provides further detail. The degree of uncertainty is also reflected in the divergent views outside government. The Budget forecasts are within the range of non-government forecasts. Appendix B provides further detail. Appendix A analyses the performance of Treasury's 2012-13 forecasts in retrospect.

Table 1: Domestic economy forecasts[a]

	Outcomes(b)	Forecasts		
	2012-13	2013-14	2014-15	2015-16
Panel A - Demand and output(c)				
Household consumption	2.0	2 1/2	3	3 1/4
Private investment				
Dwellings	-0.1	3 1/2	7 1/2	5 1/2
Total business investment(d)	6.1	-4	-5 1/2	-3 1/2
Non-dwelling construction(d)	13.9	-2 1/2	-9 1/2	-12 1/2
Machinery and equipment(d)	-4.3	-9 1/2	-2	7
Private final demand(d)	2.8	1 1/4	1 1/2	2
Public final demand(d)	-1.3	1 3/4	1 1/2	1
Total final demand	1.9	1 1/2	1 1/2	1 3/4
Change in inventories(e)	-0.3	- 1/4	1/4	0
Gross national expenditure	1.6	1 1/4	1 3/4	1 3/4
Exports of goods and services	6.0	5 1/2	5 1/2	7
Imports of goods and services	0.5	-3	2	2 1/2
Net exports(e)	1.2	1 3/4	1	1 1/4
Real gross domestic product	2.6	2 3/4	2 1/2	3
Non-farm product	2.8	2 3/4	2 3/4	3
Farm product	-3.6	5	-4	1
Nominal gross domestic product	2.5	4	3	4 3/4
Panel B - Other selected economic measures				
External accounts				
Terms of trade	-9.8	-5	-6 3/4	-1 3/4
Current account balance (per cent of GDP)	-3.6	-3 1/4	-4	-3 3/4
Labour market				
Employment(f)	1.2	3/4	1 1/2	1 1/2
Unemployment rate (per cent)(g)	5.6	6	6 1/4	6 1/4
Participation rate (per cent)(g)	65.1	64 3/4	64 1/2	64 1/2
Prices and wages				
Consumer price index(h)	2.4	3 1/4	2 1/4	2 1/2
Gross non-farm product deflator	-0.3	1 1/4	1/2	1 3/4
Wage price index(f)	2.9	2 3/4	3	3

(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 and private sectors.
(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 for the domestic economy are based on several technical assumptions. The exchange rate is assumed to remain around its recent average level — a trade-weighted index of around 71 and a United States dollar exchange rate of around 93 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$113 per barrel. The farm sector forecasts are based on an assumption of average seasonal conditions in 2014-15 and 2015-16.

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

OUTLOOK FOR THE INTERNATIONAL ECONOMY

The global economic outlook has improved gradually since the end of 2013, led by a pickup in activity in advanced economies. Over the same period, activity has moderated in emerging market economies, although they are still expected to contribute nearly three quarters of global growth over the forecast period, with growth in China remaining solid. The risks are more balanced than previously, though still to the downside. Both advanced and emerging market economies are continuing to deal with legacy issues from the financial crisis. These include adjusting to a tightening of financial conditions as the United States gradually normalises its unconventional monetary policy, and addressing continued high unemployment in many advanced economies.

In 2013, the global economy experienced its most subdued pace of growth since the financial crisis, expanding by around 3 per cent. World GDP growth is expected to gradually pick up towards trend across the forward estimates with growth of 3½ per cent in 2014, and 3¾ per cent in both 2015 and 2016, largely reflecting growing momentum in the recoveries of advanced economies. With diverging conditions across advanced and emerging market economies, a stronger global economy is not expected to be reflected in evenly robust growth across regions and countries.

Forecast growth for Australia's major trading partners has improved slightly to 4¾ per cent over the forecast period, above its trend rate of around 4 per cent. This reflects both the improved outlook in advanced economies and the increasing weight accorded to Australia's fast growing Asian partners.

Table 2: International GDP growth forecasts(a)

	Actuals	Forecasts		
	2013	2014	2015	2016
China(b)	7.7	7 1/4	7 1/4	7
India(b)	4.4	4 3/4	5 1/4	5 1/2
Japan	1.5	1 1/2	1	1
United States	1.9	2 3/4	3	3
Euro area	-0.4	1	1 1/2	1 1/2
Other East Asia(c)	4.0	4 1/2	4 1/2	4 3/4
Major trading partners	4.6	4 3/4	4 3/4	4 3/4
World	3.0	3 1/2	3 3/4	3 3/4

(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 trade weights.
(b) Production-based measure of GDP.
(c) Other East Asia comprises the newly industrialised economies (NIEs) 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 Agencies, IMF World Economic Outlook April 2014, Thomson Reuters and Treasury.

While growth in **China** has moderated, it is still expected to remain solid. The economy grew 7.7 per cent in 2013, slightly above the official target of 7.5 per cent.

Consistent with the recent softening in key indicators, growth is expected to moderate to 7¼ per cent in 2014 and 7 per cent by 2016, as the economy adjusts to the inevitable slowdown from the very high rates of credit growth in recent years, and becomes less dependent on investment and more on consumption.

The **United States** is poised for stronger economic growth over the year ahead, with forecasts of above trend growth. Relatively weak data in early 2014 is expected to reflect the impact of an unusually severe winter and lower inventory levels after significant stockpiling in late 2013. Household consumption has underpinned the recovery to date, with a long-awaited pickup in business investment expected to provide ongoing momentum. Fiscal headwinds from 2013 have also abated, as has short-term fiscal uncertainty with the latest budget deal and suspension of the debt ceiling. The United States Federal Reserve is widely expected to continue to reduce asset purchases as conditions strengthen. However, while inflation remains subdued, a tightening of policy (through official interest rate increases) is not expected before 2015.

In **Japan**, the economy has been boosted by short-term monetary and fiscal stimulus and a pickup in private demand and prices. Growth is forecast to moderate in the aftermath of the consumption tax hike in April this year, though partially offset by fiscal stimulus. The recovery is forecast to remain relatively subdued given a range of structural constraints on growth — such as a falling working age population and relatively low female labour force participation — and continued fiscal consolidation. A stronger recovery in Japan requires the 'third arrow' of structural reforms to lift productivity and longer-run growth potential, and the successful achievement of the Bank of Japan's inflation objectives.

Despite the welcome pickup in activity in the **euro area**, the recovery is forecast to remain weak, uneven and fragile. Euro area GDP growth is expected to strengthen to around 1 per cent supported by accommodative monetary policy, an easing of fiscal headwinds, improved external demand and a more even balance of risks. However, the outlook remains subdued, given continued financial system impairment, an ageing population and the effect of structural rigidities on productivity and employment growth. A more enduring resolution to the euro area design will require challenging reforms, including establishing an effective banking union.

Major **ASEAN** economies moderated in 2013 on the back of tighter financial conditions, lower commodity prices and structural impediments to growth. However, domestic demand remains resilient and, for the more trade-exposed economies, an improved global outlook should also support relatively solid growth. **India** is showing early signs of recovery from a consumption and investment-led slowdown, although its structural impediments are expected to constrain growth to around 5 to 6 per cent.

OUTLOOK FOR THE DOMESTIC ECONOMY

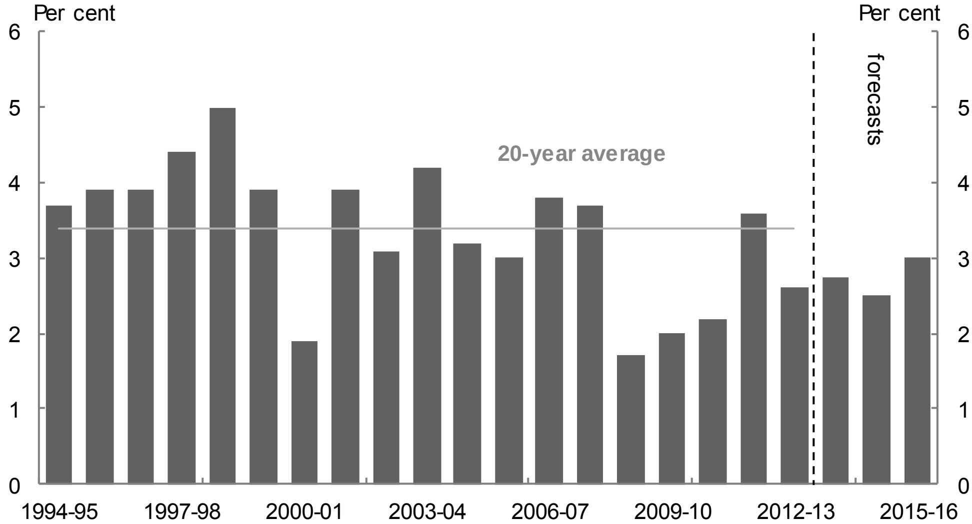
Key influences affecting the outlook

The Australian economy is going through an extraordinary period of transition, with investment in resources projects shifting from being the key driver of growth towards becoming a significant detractor from growth. The fall in investment, which is expected to happen alongside a further decline in the terms of trade, will lead to a reversal of the substantial shift of labour and capital into the resources sector that has taken place since the beginning of the investment phase.

These influences on the Australian economy are expected to persist for some time. The substantial decline in resources investment is forecast to continue through until at least 2015-16, while the decline in the terms of trade will likely last longer still. Further complicating the growth outlook is the need to pursue a prudent approach to Australia's fiscal situation over the years ahead in order to help manage the impact of the ageing population and build the capacity to respond to future global shocks.

That said, the economy is forecast to grow only slightly below trend (Chart 1). The household sector is responding to historically low interest rates and wage flexibility is supporting employment growth. The fall in the exchange rate over 2013 is also helping, although further falls would help support the necessary rebalancing of the economy.

Chart 1: Real GDP growth



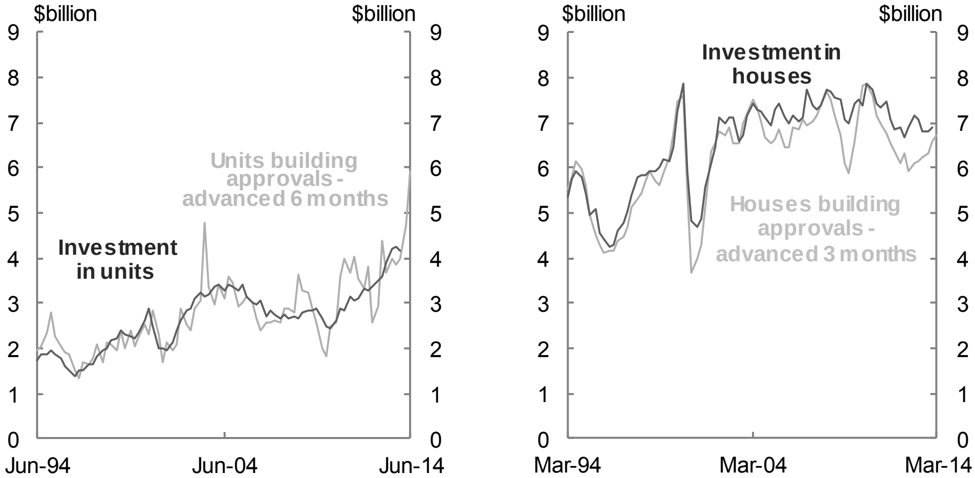
Source: ABS cat. no. 5206.0 and Treasury.

Household sector responding to low interest rates

There are clear signs that the household sector is responding to low interest rates. Dwelling sector indicators uniformly point to a pickup in activity, suggesting construction will gain momentum in the near term (Charts 2 and 3), while household consumption is being boosted by recent improvements in wealth. These developments have contributed to an improved outlook for the household sector at a time when household income is being restrained by the soft labour market.

The housing sector is beginning to respond to lower interest rates with a pickup in prices and leading indicators of construction. Rising dwelling prices in mid-2013 were one of the first signs that the dwelling sector was responding to low interest rates, while leading indicators of dwelling construction began to rise around the same time as the sector responded to the improved returns available from building.

Charts 2 and 3: Leading indicators of dwelling investment



Source: ABS cat. no. 8731.0 and unpublished ABS data.

Dwelling investment is yet to reflect the strength in leading indicators, growing by only 1.4 per cent through the year to the December quarter 2013. Liaison suggests this sluggish response is most likely due to the increasing proportion of approvals in medium- and high-density dwellings, which are more complex projects to manage and take longer to plan and complete. This suggests dwelling investment should rise strongly over the near term.

Dwelling investment is forecast to grow by 7½ per cent in 2014-15 and 5½ per cent in 2015-16.

The increase in dwelling prices since mid-2013 has coincided with higher equity prices and generated an 11 per cent rise in household wealth over the year to the December quarter 2013. Rising wealth has encouraged consumption to grow more rapidly than household income, with the (trend) household saving ratio falling from a peak in 2012 near 12 per cent to its current level of around 10 per cent.

Household income is expected to grow more slowly than average over the forecast period, reflecting moderate employment growth and subdued wage growth. However, further gains in household wealth are expected to support a further modest decline in the saving ratio, enabling consumption to grow faster than income.

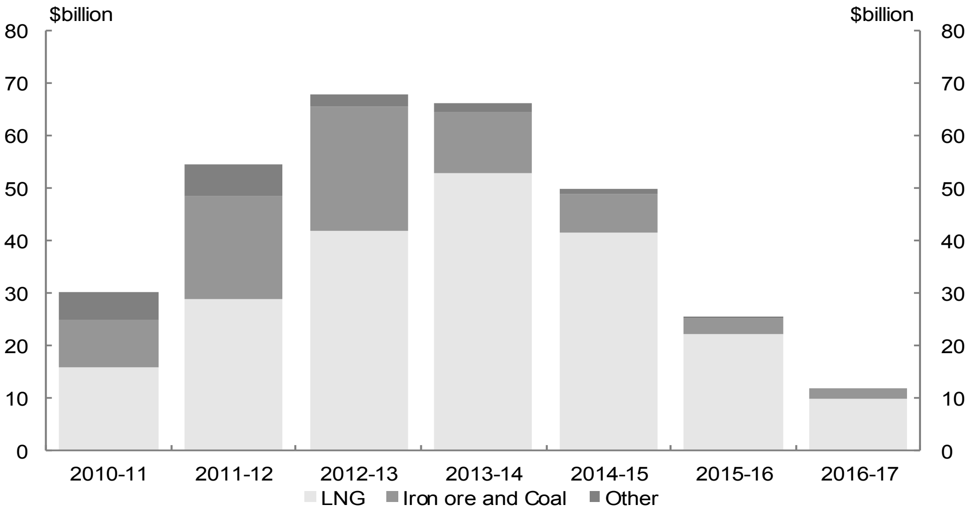
Notwithstanding this anticipated decline, the saving ratio is expected to remain well above the levels seen in the decade before the financial crisis, which were a reflection of a prolonged period of rising household borrowings. After the crisis, households reduced their demand and appetite for credit, leading to a sharp step-up in the household saving ratio and a marked slowing in household credit growth. Developments in household consumption will be heavily influenced by how these factors change during the prospective period of moderate income growth.

Household consumption is forecast to grow by 3 per cent in 2014-15 and 3¼ per cent in 2015-16.

The resources boom transitioning between phases

Investment in resources projects has passed its peak and is expected to detract significantly from growth over the next three years (Charts 4 and 5). While there is some confidence about the size of the decline in resources investment, the precise timing of the fall remains less certain. The size of the fall is more predictable because of the small number of large Liquefied Natural Gas (LNG) projects that are underpinning the current resources investment profile, and the construction lead time associated with, and the small number and size of, any other projects that might be undertaken in the near term.

Chart 4: Spending on major resources projects



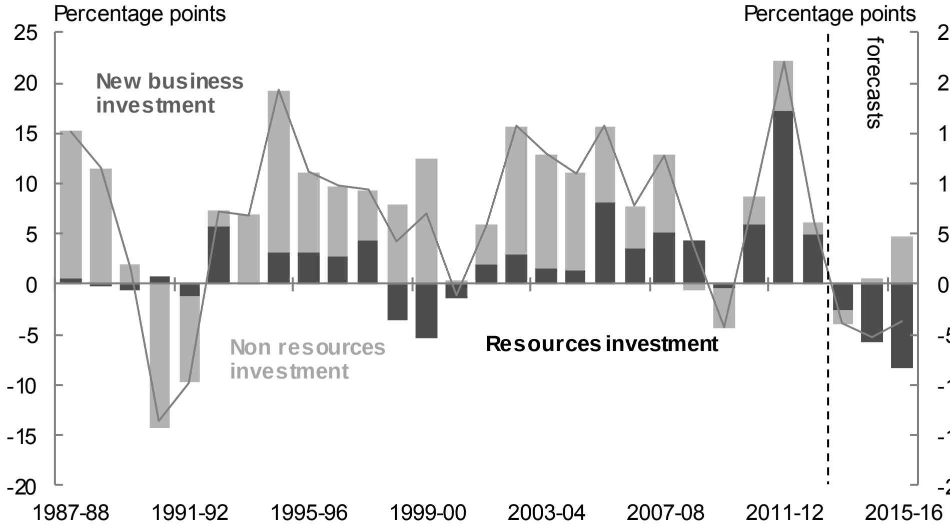
Note: Treasury's major resources projects profile is the sum of spending on existing and planned resources projects greater than $2 billion, weighted by their probability of going ahead.
Source: Treasury.

Non-resources businesses are waiting before investing

Investment by non-resources businesses remains subdued. While interest rates remain low and business confidence is higher than it was a year ago, conditions remain difficult, as reflected in low levels of capacity utilisation and business surveys. Not surprisingly, given these circumstances, the latest CAPEX data point to only a modest increase in investment in 2014-15. This is consistent with reports from Treasury's business liaison which suggests firms are reluctant to invest until they have a clearer sense that demand is improving.

The scale and timing of the anticipated recovery in non-resources business investment is the predominant source of uncertainty affecting the outlook. Consistent with the CAPEX data, the outlook for 2014-15 remains subdued, with growth likely again to be below trend. However, there are some positive signs including a rise in approvals for non-residential building over 2013. Non-resources investment is forecast to pick up in 2015-16 as firms start to respond to improving demand and existing levels of spare capacity are absorbed, with GDP growth returning towards trend (Chart 5).

Chart 5: Contributions to growth in business investment



Source: ABS cat. no. 5204.0, 5206.0 and Treasury.

Overall **new private business investment** is forecast to fall by 5½ per cent in 2014-15 and 3½ per cent in 2015-16. The fall in resources investment is reflected in the forecast for new engineering construction, which is expected to fall by 13 per cent in 2014-15 and 20½ per cent in 2015-16. The recovery in non-resources investment has influenced the forecast for new non-residential building investment, which is expected to remain flat in 2014-15 and grow by 5 per cent in 2015-16, and the forecast for new machinery and equipment investment, which is expected to fall by 2 per cent in 2014-15 and grow by 7 per cent in 2015-16.

Resources exports continue to grow

The strong rise in resources exports over recent years is expected to continue over the forecast period as capacity in the resources sector continues to come on stream. The volume of non-rural commodity exports is forecast to grow by 8 per cent in 2014-15 and 9½ per cent in 2015-16.

Large expansions in iron ore infrastructure are mainly complete and production will build up to designed capacity over the next two years. Coal export volumes are also expected to rise, although both metallurgical and thermal coal producers are under pressure from low prices and higher costs which saw Australian producers move from predominantly the bottom half of the global cost curve to the top half over the past five years. Impediments to driving down costs will exacerbate the pressure associated with weak prices and could result in mine closures and job losses.

To date, coal mine closures have been limited, with many producers bound by contractual arrangements with infrastructure providers that require some payment for transport regardless of the volume of coal actually transported. Under these arrangements, many producers are maximising their production to reduce average unit costs. This situation raises uncertainty around the outlook for coal exports, particularly if price weakness continues and as contracts with infrastructure providers expire.

Exports of LNG are expected to grow significantly by 2015-16 as the more advanced LNG projects begin production. By 2015-16, the value of LNG exports is expected to be roughly double its current level. This would see it surpass both thermal and metallurgical coal, currently Australia's second and third largest exports by value. Continued robust growth is also expected beyond the forecast years as additional projects come online, with Australia likely to overtake Qatar to become the world's largest LNG exporter before the end of the decade.

While these projects are already in the construction phase, considerable uncertainty remains over exactly when they will begin exporting, and how quickly they can ramp up to full capacity. A number of projects have already experienced cost overruns and have delayed expected start-up dates. The unique properties of individual gas fields and technological differences between conventional and unconventional gas extraction will also likely affect gas flow rates and the ability to reach the project's stated capacity.

Projects that fail to meet their production targets may need to purchase gas from established gas sources, either in Australia or overseas, to meet contractual obligations to foreign customers. Shortfalls are most likely to occur on the East Coast gas network, which will have implications for domestic gas users in the form of higher prices and more difficulty in securing long-term supply agreements. Restrictions on the spread of new gas extraction technologies are likely to make this problem more acute.

Notwithstanding significant drought in Queensland, New South Wales and parts of South Australia and Victoria, rural exports are forecast to decline only marginally in 2014-15. Exports are expected to recover in 2015-16, assuming a return to average seasonal conditions.

The depreciation of the exchange rate over 2013 has created better conditions for exporters, but the exchange rate remains high by historical standards. This strength stands in sharp contrast to the historical tendency of the exchange rate to move together with the terms of trade. Exporters will benefit from the improved outlook for growth in our major trading partners. The already lower exchange rate is likely to support modest growth in non-commodity goods exports, which are forecast to rise by 3 per cent in 2014-15 and 3½ per cent in 2015-16. Services exports improved over 2012-13, ending a period of weakness that began around the financial crisis, buoyed by higher tourism arrivals, particularly from China and South-East Asia, a trend that is expected to continue. Services exports are forecast to grow by 3 per cent in both 2014-15 and 2015-16.

Total **exports** are forecast to increase by 5½ per cent in 2014-15 and 7 per cent in 2015-16.

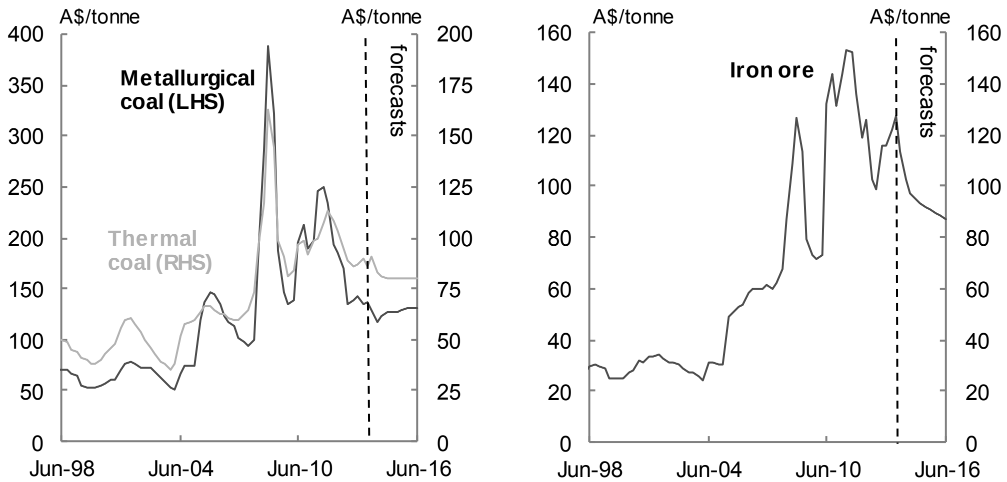
Over the forecast period, imports of capital goods are expected to decline as construction on LNG projects winds down. Imports of consumption goods are forecast to grow reflecting near trend consumption growth and the elevated exchange rate, but at more moderate rates than the average of the previous decade. Total **imports** are forecast to grow by 2 per cent in 2014-15 and 2½ per cent in 2015-16.

The terms of trade are expected to continue to decline

After holding up during the second half of 2013, iron ore and coal prices have fallen sharply since the beginning of 2014. The decline has been due to weaker demand for steel, a period of negative sentiment around China's economic growth prospects, as well as rising global supply, in particular due to recently built capacity coming on line from Australia.

Iron ore prices are expected to fall further in 2014-15 and 2015-16, reflecting further growth in global supply and slower growth in demand for steel. Metallurgical coal prices are expected to rise slightly over the forecast period as global supply growth slows, while thermal coal prices are forecast to remain stable (Charts 6 and 7).

Charts 6 and 7: Bulk commodity export prices



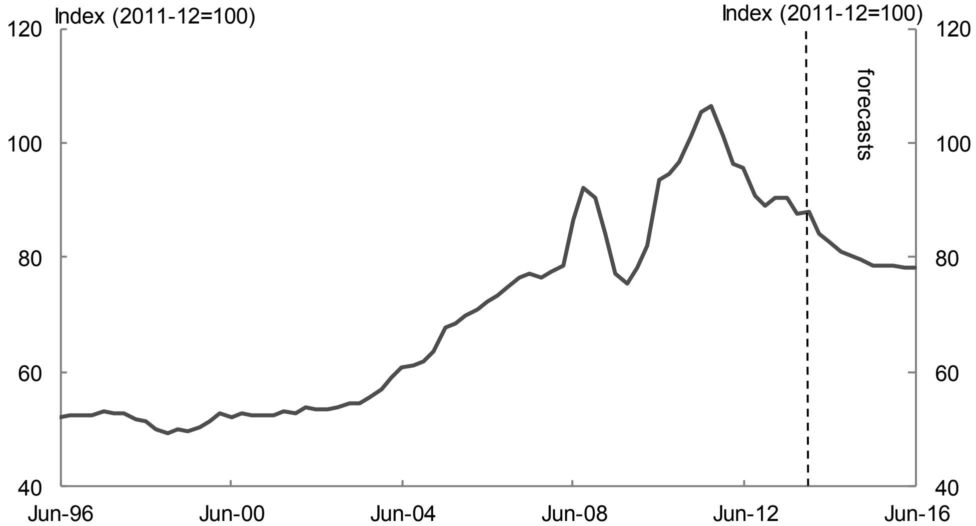
Source: Based on ABS data and Treasury. Export prices differ from the more-widely quoted spot prices. Export prices reflect the actual price foreigners pay for our exports and reflect the quality of the resource being provided (such as the iron ore content), long-term contracts and exchange rate movements.

LNG export prices are expected to increase over the forecast period as the new contracts associated with projects that are starting up come into force. As most LNG contract prices are tied to global oil prices, there is some uncertainty over future price movements. Global supply developments, particularly the potential for gas exports from the United States, will also have important implications for global gas prices. While this is unlikely to have a large impact on current LNG projects, which have long-term contractual arrangements, additional US supply to the Asia-Pacific region would affect the feasibility of new or expanded operations in Australia.

Over the longer term, it is also possible that LNG exports from the US may be directed across the Atlantic, given a renewed focus on energy security in Europe following events in Ukraine. This would reduce potential supply in the Asia-Pacific and could support prices in the region.

The weak outlook for commodity export prices is consistent with the medium-term projections based on a bottom-up framework outlined in MYEFO as described in Treasury Working Paper 2014-01,[1] which sees a falling terms of trade until 2019-20. The terms of trade are expected to fall by 6¾ per cent in 2014-15 and 1¾ per cent in 2015-16 (Chart 8).

Chart 8: Terms of trade



Source: ABS cat. no. 5206.0 and Treasury.

The **current account deficit** is forecast to widen from 3¼ per cent of GDP in 2013-14 to 4 per cent of GDP in 2014-15, before narrowing slightly to 3¾ per cent of GDP in 2015-16, driven mainly by changes in the trade balance.

While export volumes will rise, further expected weakness in export prices implies that the trade balance is likely to return to a modest deficit over the forecast horizon. Further, as the economy transitions from the investment to the exports phase of the mining boom, Australia's net income deficit is expected to widen due to the high degree of foreign ownership in Australia's resources sector.

1 http://www.treasury.gov.au/PublicationsAndMedia/Publications/2014/Long-run-forecasts-of-Australias-terms-of-trade.

Fiscal consolidation continuing

The measures in this Budget improve the budget bottom line over the forecast period and beyond. Over the forecast period, the timing and composition of the new policy decisions mean that the faster pace of consolidation in this Budget does not have a material impact on economic growth relative to the 2013-14 MYEFO, including because the fiscal multipliers associated with infrastructure spending are larger than those for the measures having a direct impact on households and businesses. Fiscal consolidation, at both Commonwealth and State levels, is one of the forces acting on the economy taken into account in the setting of interest rates by the Reserve Bank of Australia.

Public final demand, which captures the direct economic impact of public sector consumption and investment by all levels of government, is forecast to grow moderately, as governments pursue budget consolidation. **New public final demand** is forecast to grow by 1½ per cent in 2014-15 and by 1 per cent in 2015-16. These forecasts represent a significantly smaller than average contribution to overall growth from public demand.

Incentives provided through the $5 billion Asset Recycling Initiative by the Commonwealth Government for state governments to reinvest the proceeds of privatisations into new productivity-enhancing infrastructure, along with $3.7 billion of additional investment for road projects and the $2.9 billion Western Sydney Infrastructure Plan, are expected to boost construction activity from 2015-16. This will enable states to employ construction capacity that will be freed up as investment in the resources sector winds down. Governments can also fund projects beyond the finance generated by privatisation and Commonwealth assistance.

Investment in national infrastructure adds immediately to economic activity and can also lift the long-term potential output of the economy, particularly by allowing businesses to expand to exploit the better transport, communications or energy solutions available.

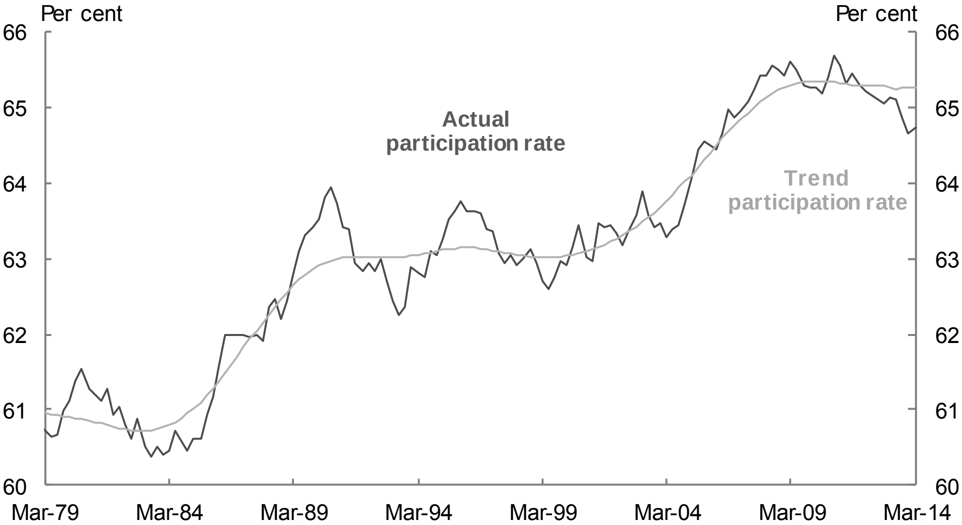
Weakness in the labour market leading to subdued wages

Participation in the labour market can be affected by structural and cyclical factors. The change in the population's age structure as the `baby boomers' reach retirement age is exerting downward pressure on participation. The downward pressure is due to the increasing proportion of the population in older age groups that have low participation. At present, this pressure is being predominately offset by other structural factors not related to ageing, including increases in the participation rate for many specific age groups, particularly over 60s. However, the negative structural effect due to ageing is expected to start dominating by the end of the decade.

The fall in the participation rate over the past three years has been driven not only by ageing but also by potential employees giving up the search for work, given weak employment demand and scarce job opportunities. This phenomenon, the discouraged worker effect, is associated with a cyclical downturn in the labour market and is consistent with sub-trend demand across the economy.

That said, there has been a significant pickup in employment growth and job vacancies have improved since the start of the year. While the turnaround is encouraging, there remains significant spare capacity in the labour market. In trend terms, the employment to population ratio continues to decline, and the unemployment rate would be markedly above its current rate of 5.8 per cent if the participation rate had not fallen significantly over the past three years.

Chart 9: Participation rate



Source ABS cat. no. 6202.0 and Treasury. Trend participation is derived from a disaggregated analysis of age and gender specific participation rates as outlined in Treasury Working Paper 2014-02[2].

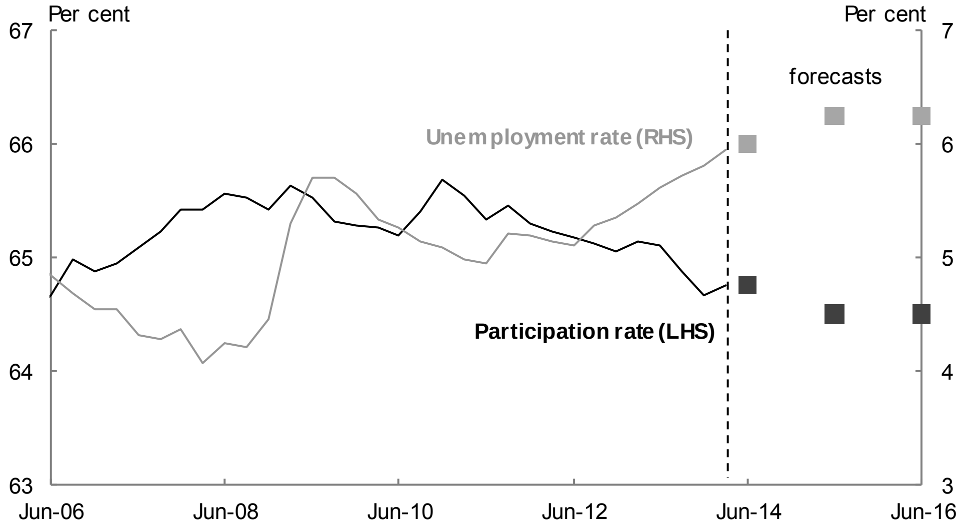
Over the forecast period, the participation rate is expected to decline from its current rate of 64.7 per cent to 64½ per cent in the June quarters of both 2015 and 2016, reflecting the expectation that employment growth will not be strong enough to entice discouraged workers to resume their job search (Chart 9). However, an improvement in job vacancies and advertisements in early 2014 indicates that there are upside risks.

A number of measures in the 2014-15 Budget support participation and economic growth: the Restart initiative for over-50s; the tightened unemployment benefit arrangements for under-30s; changes to eligibility for Family Tax Benefit Part B; and the Paid Parental Leave scheme.

2 http://www.treasury.gov.au/PublicationsAndMedia/Publications/2014/Tsy-Medium-Term-Projection.

Employment growth is forecast to be 1½ per cent through the year to the June quarters of both 2015 and 2016 reflecting sub-trend GDP growth across the economy. This forecast is on an aggregate basis and employment will vary across industry sectors. Based on the employment and participation rate forecasts, the **unemployment rate** is forecast to be 6¼ per cent in the June quarters of both 2015 and 2016 (Chart 10), although positive labour market developments since the start of the year suggest the unemployment rate could peak at a lower level.

Chart 10: Unemployment rate and participation rate



Source ABS cat. no. 6202.0 and Treasury.

Recent wage growth has been very subdued, consistent with the current spare capacity in the labour market. The wage price index grew by 2.6 per cent through the year to the December quarter 2013, its weakest growth since the series began in 1997.

Wage flexibility is an important adjustment mechanism. As was seen during the financial crisis, slower wage growth allows employers to maintain higher staff levels, particularly at a time when business income is expected to come under pressure from the declining terms of trade. It will also encourage non-resources sectors to employ more of the labour that will be freed up as major resources projects are completed.

Subdued wage growth is expected to continue until the spare capacity in the labour market is absorbed. The **wage price index** is forecast to grow by a still subdued 3 per cent through the year to the June quarters of both 2015 and 2016.

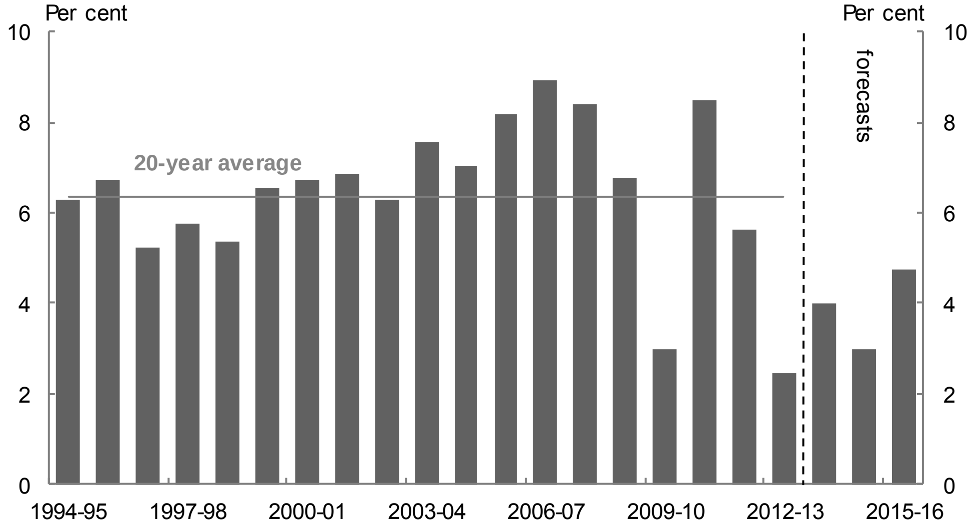
Consumer price inflation is forecast to remain contained over the forecast period. Subdued wage growth will help keep unit labour costs down and contribute to lower inflationary pressure. The removal of the carbon tax is expected to reduce the headline Consumer Price Index (CPI) by ¾ of a percentage point and the underlying CPI by ¼ of a percentage point over the year to the June quarter of 2015 compared to what it would have been with a $25.40 carbon tax. **Headline inflation** is forecast to be 2¼ per cent through the year to the June quarter of 2015 and 2½ per cent to the June quarter of 2016. **Underlying inflation** is forecast to be 2¼ per cent through the year to the June quarter of 2015 and 2½ per cent to the June quarter of 2016.

Outlook for nominal GDP remains weak

Nominal GDP growth is expected to remain well below its 20-year average over the forecast period, largely reflecting further declines in the terms of trade and subdued domestic price growth.

Below average nominal GDP growth is generating weak income growth over the forecast period. This is reflected in weak growth in company gross operating surplus, corresponding to low output prices, and weak growth in compensation of employees, corresponding to low wage growth. **Nominal GDP** is forecast to grow by 3 per cent in 2014-15 and 4¾ per cent in 2015-16 (Chart 11).

Chart 11: Nominal GDP growth



Source: ABS cat. no. 5206.0 and Treasury.

Risks

International risks are more balanced than previously, although still to the downside. Advanced and emerging market economies continue to deal with legacy issues from the financial crisis. Ongoing financial fragilities remain and the search for yield may see new risks emerge in some markets. The process of normalising US monetary policy may cause financial market volatility and may trigger a reassessment of some emerging market economies with pre-existing domestic vulnerabilities.

New risks include the resurfacing of geopolitical tensions, which may also affect vulnerable emerging market economies, and are not without the potential for wider implications.

Another emergent risk to the outlook for the euro area is the persistence of very low inflation outcomes, which may cause inflation expectations to drift down and raise the possibility of area-wide deflation. This risk adds another layer of complexity for policymakers in managing an already weak and uneven recovery. Other risks include the lingering weaknesses in the financial system, the handling of the asset quality review of euro area banks, concerns with budget sustainability, and the ongoing official assistance to some member countries.

In China, there are downside risks around managing both the economy's financial sector — including shadow banking activities and high rates of leverage in some sectors — and the reform initiatives to help rebalance the economy and move up the production chain.

In the United States, there is a risk that recent weak data could reflect more than just temporary or weather-related factors. In the other direction, with many of the factors holding back the recovery having abated, US growth could be stronger than expected. Japan will need to balance the needs of its recovery with charting a path towards budget consolidation over the medium-term. The effective implementation of structural reforms to boost Japan's growth potential presents an upside risk to the medium-term outlook.

Domestic risks are evenly balanced. The household sector is clearly responding to low interest rates. Although business investment intentions remain weak, a further improvement in domestic or external demand could provide the necessary incentive for firms to upgrade their plans. Non-resources exports have been subdued for an extended period under the influence of the strong exchange rate. A weaker exchange rate, which is historically an outcome associated with a declining terms of trade, would benefit exporters and import-competing sectors in general and result in a better balance between the exchange rate and the level of interest rates than is currently the case.

Balancing these upside risks, the fall in resources investment is likely to be lumpy, while the associated rise in exports also has uncertain timing. Together, these effects could generate short-term weakness in GDP. Many trade-exposed sectors continue to battle against a still-elevated exchange rate, while a further softening of the labour market would have repercussions for household consumption. Finally, while a further large increase in house prices would support economic activity in the near term, it would also raise concerns about whether prices could be sustained at that level and whether policy might need to respond.

MEDIUM-TERM PROJECTIONS

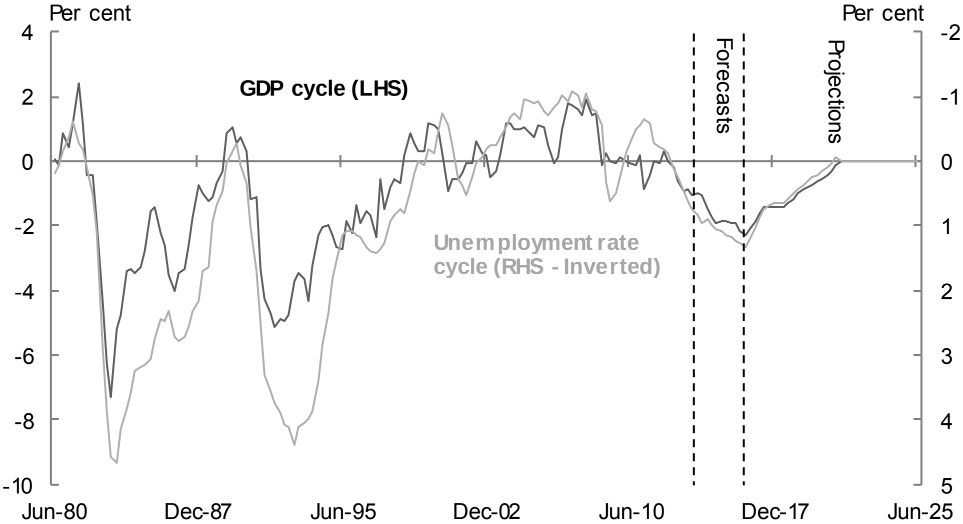
The budget forward estimates contain economic forecasts for the budget year and the subsequent financial year, and projections for the next two financial years. These projections are not forecasts, but rather are based on a set of medium-term assumptions.

In previous Budgets, and MYEFOs prior to 2013-14, real GDP was projected to grow at its estimated trend rate, and the unemployment rate was assumed to immediately return to 5 per cent, Treasury's estimate of the non-accelerating inflation rate of unemployment (NAIRU). In times when the degree of spare capacity in the economy was small, and the unemployment rate was close to the NAIRU, this approach had significant merit.

However, as flagged at MYEFO and subsequently, these medium-term assumptions have been revisited to consider whether they remain appropriate in the face of a large and rising level of spare capacity in the economy. In the 2013 PEFO, an alternative assumption of above trend growth and gradually declining unemployment was presented for the projection years, recognising that the economy would be operating with spare capacity by the end of the forecast period. In the 2013-14 MYEFO, real GDP in the two projection years was assumed to grow at its trend rate, and unemployment was maintained at its rate at the end of the forecast period, 6¼ per cent. If this approach had been maintained over the years beyond the forward estimates, it would have been akin to assuming the spare capacity was permanent — meaning real GDP would never return to trend levels and unemployment would remain permanently above the NAIRU.

Based on current forecasts, by the end of 2015-16, the economy will have grown slower than trend for seven of the past eight years. As a result, it is estimated that the economy will be operating at that time with a gap between potential output and actual output of about 2 per cent (Chart 12) — the largest such output gap since the mid-1990s.

Chart 12: Output and unemployment gap estimates



Source: Treasury.

Building on the revised assumptions made in MYEFO, Treasury has reviewed the projection methodology with the aim of incorporating a path of adjustment that closes this gap over the medium term. The 2014-15 Budget adopts a new framework, which assumes that the spare capacity is absorbed over the five years following the two-year forecast period. This new framework is laid out in Treasury Working Paper 2014-02.[3]

Under this framework, real GDP returns to its trend level by 2020-21. As this occurs, labour market variables, including employment and the participation rate, converge from their levels at the end of the forecast period to their long-run trend levels.

With spare capacity at the end of the forecast period, real GDP is projected to grow above trend for a period of five years from 2016-17. Real GDP growth over this period is therefore stronger than projected at MYEFO.

However, the level of output remains below potential over these years, resulting in projected wage growth that is weaker than at MYEFO. The extended period of below-trend wage growth helps to facilitate sufficient employment growth to transition unemployment gradually back to the NAIRU. In turn, weaker wage costs are projected to flow through to subdued prices growth, with correspondingly slower growth in the GDP deflator, and hence in nominal GDP.

Over the projection period, as a result of the revised methodology nominal GDP is higher, with stronger real GDP growth only partially offset by a lower GDP deflator, the number of unemployment benefit recipients is lower and growth in wage-indexed

3 http://www.treasury.gov.au/PublicationsAndMedia/Publications/2014/Tsy-Medium-Term-Projection.

payments is slower. Compared with MYEFO, the revised projection methodology results in a reduction in the underlying cash balance of $0.3 billion (0.02 per cent of GDP) in 2016-17 and an increase of $0.9 billion (0.05 per cent of GDP) in 2017-18. By 2024-25, the new methodology increases the underlying cash balance by $3.4 billion (0.12 per cent of GDP).

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.[4]

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 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.[5] Charts A.1 and A.2 show the magnitude of the Budget year forecast errors for real and nominal GDP growth over the past 20 years. The independent review concluded that, over the 20 years to 2011-12, Treasury's forecasts of real GDP growth exhibited little evidence of bias, with accuracy generally remaining within a range of ½ to 1 percentage point. While forecasts of real GDP growth were less accurate in years during and immediately after the financial crisis, forecast errors have since returned to that range. The Budget year forecast error for nominal GDP in 2012-13 was larger than its 20-year average.

2012-13 real and nominal GDP growth forecasts

Economic forecasts for 2012-13 were first published in the 2011-12 Budget. Subsequent forecasts were published in the 2011-12 MYEFO, 2012-13 Budget, 2012-13 MYEFO and 2013-14 Budget.

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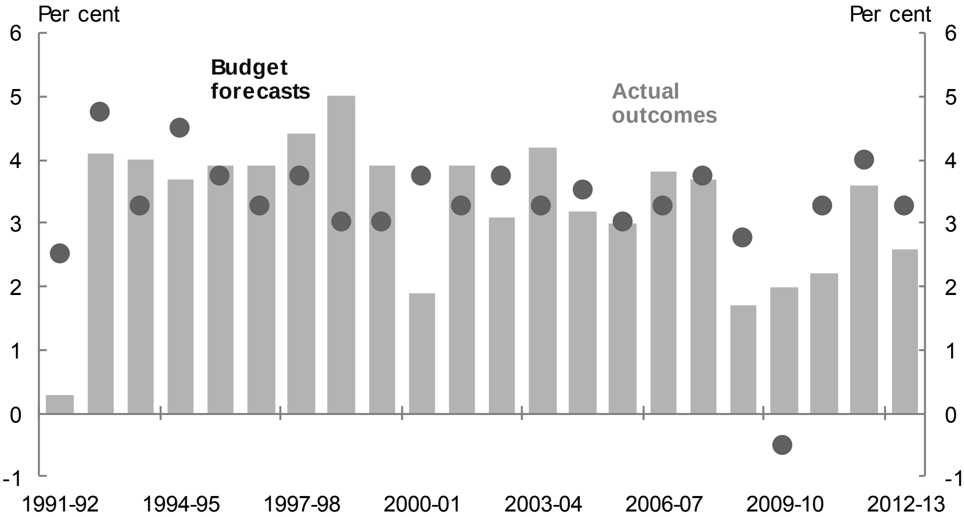
4 http://www.treasury.gov.au/~/media/Treasury/Publications%20and%20Media/Publications/2013/forecasting_review/downloads/PDF/forecasting-review.ashx.

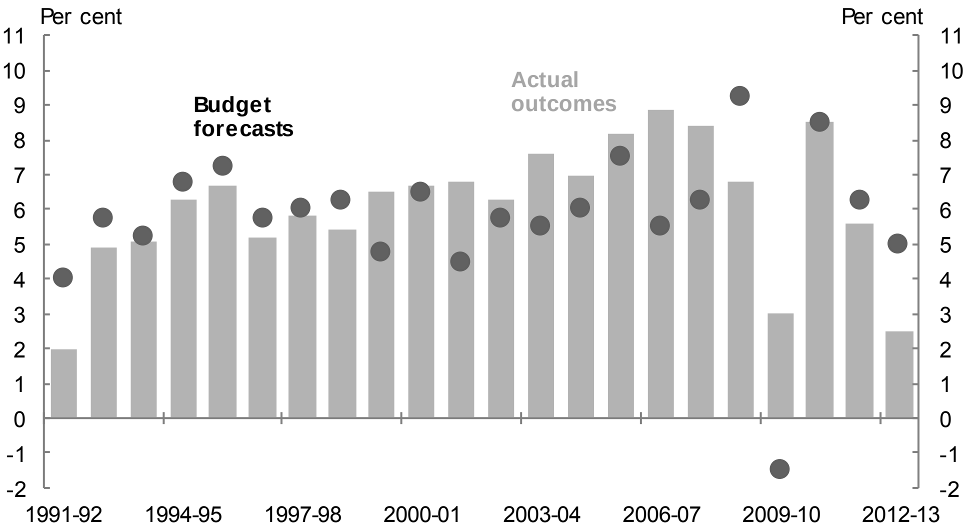
5 The uncertainty around the Government's GDP forecasts is quantified and presented as confidence intervals in Appendix B of Statement 3.

Chart A.1: Budget forecast of real GDP growth



Note: Outcome is as published in the December quarter 2013 National Accounts. Forecast is that published in the Budget for that year.
Source: ABS cat. no. 5206.0 and Treasury.

Chart A.2: Budget forecast of nominal GDP growth



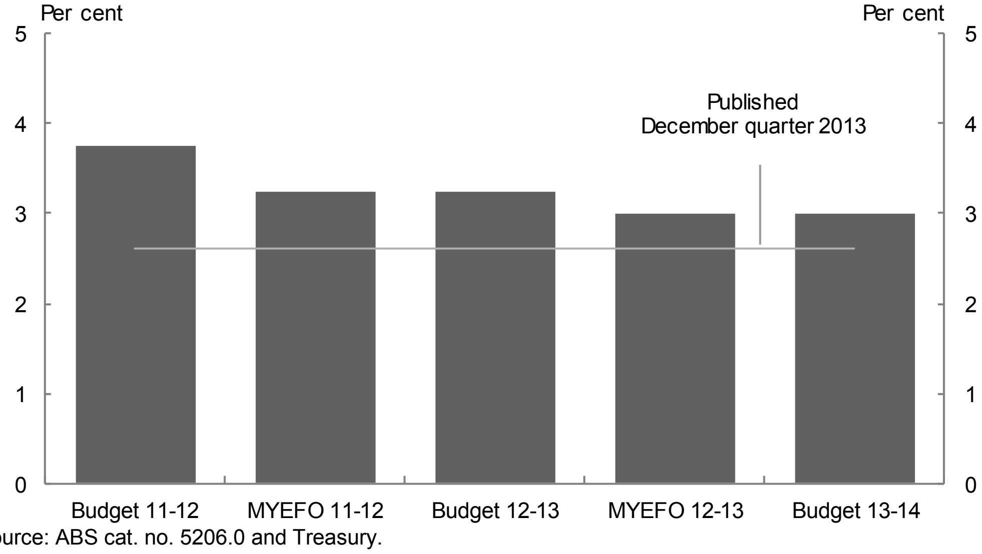
Note: Outcome is as published in the December quarter 2013 National Accounts. Forecast is that published in the Budget for that year.
Source: ABS cat. no. 5206.0 and Treasury.

In 2012-13, Australia recorded another year of below-trend economic growth, with activity remaining patchy across certain sectors of the economy. Despite continued strength in resources investment, subdued activity in the household sector and non-resources business sectors weighed on growth. Households continued to exercise caution as income growth slowed and non-resources businesses remained reluctant to invest in the face of subdued profit growth and poor trading conditions. New public final demand also contracted for the first time since 1993-94, reflecting efforts to consolidate fiscal balances at the Commonwealth and state levels. Below-trend growth saw the unemployment rate start to rise, while inflation remained in the bottom half of the RBA's target band.

Chart A.3 presents the evolution of Treasury's forecasts for 2012-13 real GDP growth. The absolute percentage errors for forecasts of 2012-13 real GDP growth were largest in the 2011-12 Budget (at 1.2 percentage points) and smallest in the 2012-13 MYEFO and 2013-14 Budget (at 0.4 percentage points), while the 2012-13 Budget absolute percentage error was 0.7 percentage points.[6] Over the past 20 years, Treasury's mean absolute percentage error for the Budget forecast of real GDP growth in the budget year has been 0.8 percentage points.

The main contributors to the GDP forecast errors were business investment and household consumption. Business investment in 2012-13 was overestimated as both resources and non-resources firms repeatedly scaled back investment plans, while household consumption was subdued by much weaker than expected wage growth.

Chart A.3: Evolution of real GDP growth forecasts for 2012-13



Source: ABS cat. no. 5206.0 and Treasury.

In 2012-13, nominal GDP grew by 2.5 per cent — the weakest growth since the early 1990s recession — with large falls in bulk commodity export prices contributing to a 9.8 per cent fall in the terms of trade and compensation of employees growing at its

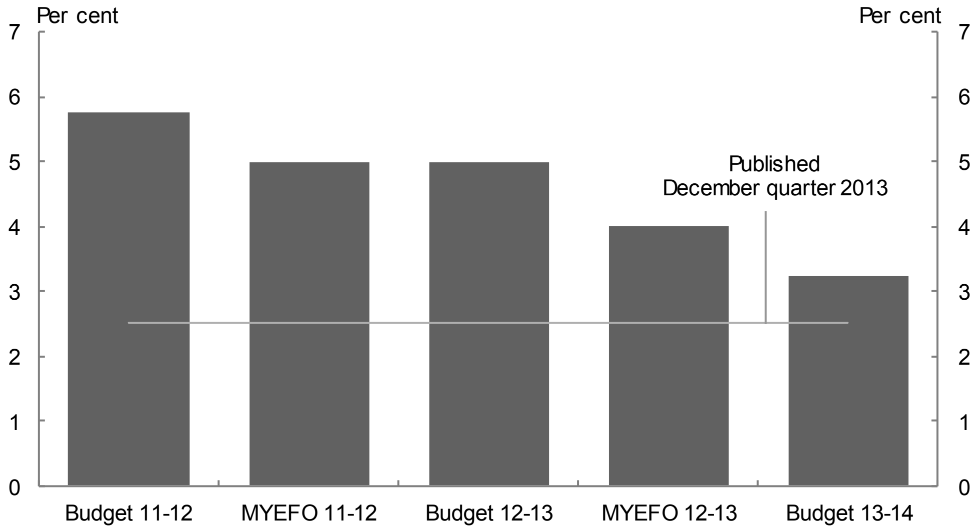
6 The absolute percentage error is an indicator of the accuracy of the forecasts, as it measures the distance between the forecast percentage growth rate and the outcome. All other things equal, a smaller number indicates a better forecasting performance.

weakest rate since 1991-92. Chart A.4 presents the evolution of Treasury's forecasts for 2012-13 nominal GDP growth.

The absolute percentage error in the forecast of 2012-13 nominal GDP growth was largest in the 2011-12 Budget (at 3.3 percentage points) and smallest in the 2013-14 Budget (at 0.8 percentage points), while the 2012-13 Budget absolute percentage error was 2.5 percentage points. Over the past 20 years, Treasury's mean absolute percentage error for the budget forecast of nominal GDP growth in the budget year has been 1.4 percentage points.

The largest absolute forecast error in the components of nominal GDP growth was in the terms of trade, with a smaller forecast error recorded in domestic prices and real GDP growth. The forecast error for the terms of trade was largest for export prices, reflecting the difficulty of forecasting commodity prices during periods of substantial price volatility. The forecast error for domestic price growth reflected a smaller than expected increase in business investment prices, with cost overruns reported by resources companies not flowing through into higher investment prices as expected, and weaker consumer price inflation, which was muted by a higher than expected unemployment rate.

Chart A.4: Evolution of nominal GDP growth forecasts for 2012-13



Source: ABS cat. no. 5206.0 and Treasury.

APPENDIX B: COMPARISON WITH CONSENSUS FORECASTS

Consensus Economics collect forecasts on key macroeconomic variables from a number of prominent economists. The mean and range of these forecasts provide benchmarks with which to compare the Government's economic forecasts. Forecasts from the International Monetary Fund (IMF) provide a benchmark from an international institution.

IMF and Consensus forecasts are provided on a calendar year basis. The 2014-15 Budget forecast for real GDP growth in calendar year 2014 is lower than the Consensus Economics mean forecast and broadly in line with the IMF's forecast (Chart B.1). The Budget forecast for calendar year 2015 is broadly in line with the Consensus Economics mean forecast and higher than the IMF's forecast (Chart B.2).

Chart B.1: Consensus economics real GDP forecasts for calendar year 2014

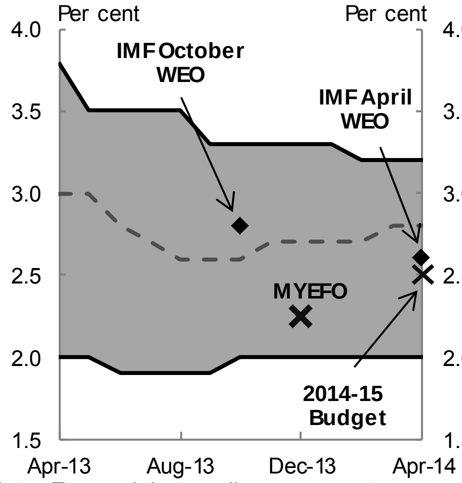
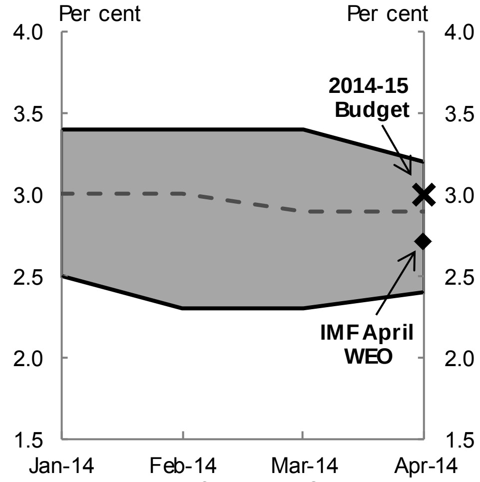


Chart B.2: Consensus economics real GDP forecasts for calendar year 2015



Note: Top and bottom lines represent range of Consensus Economics forecasts. Centre dotted line represents Consensus Economics mean forecast.
Consensus Economics forecasts for 2015 were published for the first time in January 2014. The 2013-14 MYEFO did not contain forecasts for the full 2015 calendar year.
Source: Consensus Economics, IMF and Treasury.

The 2014-15 Budget unemployment rate forecast for calendar year 2014 is broadly in line with the Consensus Economics mean forecast and lower than the IMF's forecast (Chart B.3). The Budget forecast for calendar year 2015 is higher than the Consensus Economics mean forecast and in line with the IMF's forecast (Chart B.4).

Chart B.3: Consensus economics unemployment rate forecasts for calendar year 2014

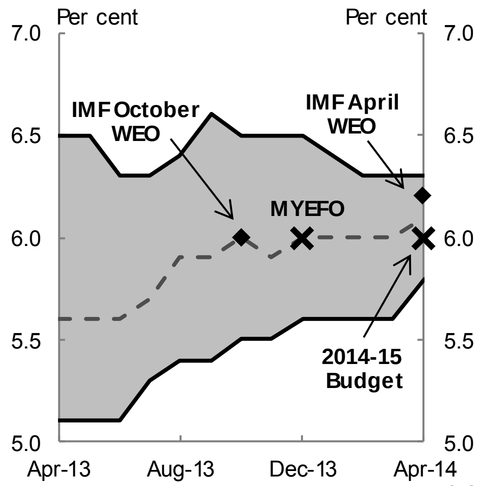
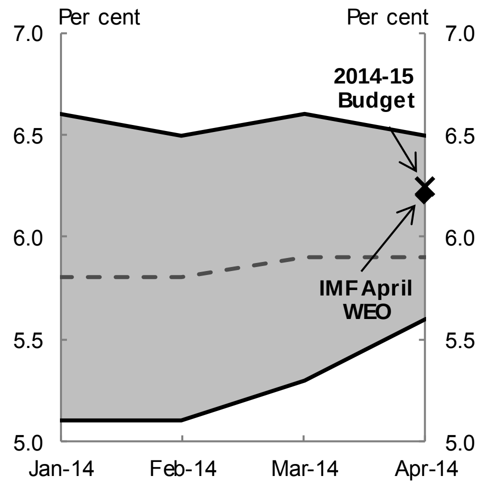


Chart B.4: Consensus economics unemployment rate forecasts for calendar year 2015



Note: Top and bottom lines represent range of Consensus Economics forecasts. Centre line represents Consensus Economics mean forecast.
Consensus Economics forecasts for 2015 were published for the first time in January 2014. The 2013-14 MYEFO did not contain forecasts for the full 2015 calendar year.
Source: Consensus Economics, IMF and Treasury.

STATEMENT 3: FISCAL STRATEGY AND OUTLOOK

This Budget is the Government's first major step towards meeting our election commitment to repair the Budget.

The Government's medium-term fiscal strategy is to achieve budget surpluses, on average, over the course of the economic cycle. The fiscal strategy underlines the commitment to budget discipline and outlines how the Government will set medium-term fiscal policy while allowing for flexibility in response to changing economic conditions. To deliver on this medium-term fiscal strategy over time, the Government will repair the Budget by ensuring new spending is more than offset by reduced spending, and positive variations in receipts and payments from favourable economic conditions are banked as improvements to the budget bottom-line.

The deficits inherited from the former Government over the four years to 2016-17 totalled $123 billion at the 2013-14 MYEFO. In the Government's first four years to 2017-18, deficits are estimated to total just $60 billion — an improvement of $43.8 billion over these four years compared with the 2013-14 MYEFO. This improvement will be achieved by decisions that reduce wasteful spending, improve the sustainability of our social safety net, encourage greater personal responsibility and encourage the states to take greater responsibility for their hospitals and schools. Of the decisions taken in this Budget, 77 per cent of the improvement to the bottom line is the result of reductions to spending. The Government is redirecting spending from consumption to investments that will drive economic growth.

In the 2014-15 Budget, the Government is budgeting for an underlying cash deficit of $29.8 billion (1.8 per cent of GDP) in 2014-15, improving to a deficit of $2.8 billion (0.2 per cent of GDP) in 2017-18. The pace of fiscal consolidation balances the need for structural fiscal repair with the shorter term impact on the economy.

The Budget also deals with the significant real growth in payments inherited from the former Government in 2017-18, where payments were previously growing at 5.9 per cent above inflation between 2016-17 and 2017-18. As a result of the actions in the Budget, the Government has reduced this real growth in payments to 2.6 per cent. The improvement to the budget bottom line in 2017-18 is $25.6 billion, $20.3 billion is the result of decisions to cut spending.

The structural savings we have put in place reduce the spiralling of payments growth and drive a significantly more sustainable budget position in the medium term. Based on the economy continuing to grow, the medium-term projections indicate a return to surplus by the end of the decade.

At the 2013-14 MYEFO, Commonwealth Government Securities on issue were projected to reach $667 billion in 2023-24. This is projected to reduce to $326 billion in this Budget assuming no tax relief. With a tax-to-GDP cap of 23.9 per cent, Commonwealth Government Securities on issue in 2023-24 would still reduce to $389 billion compared to $748 billion if a tax cut had been in place at MYEFO.

CONTENTS

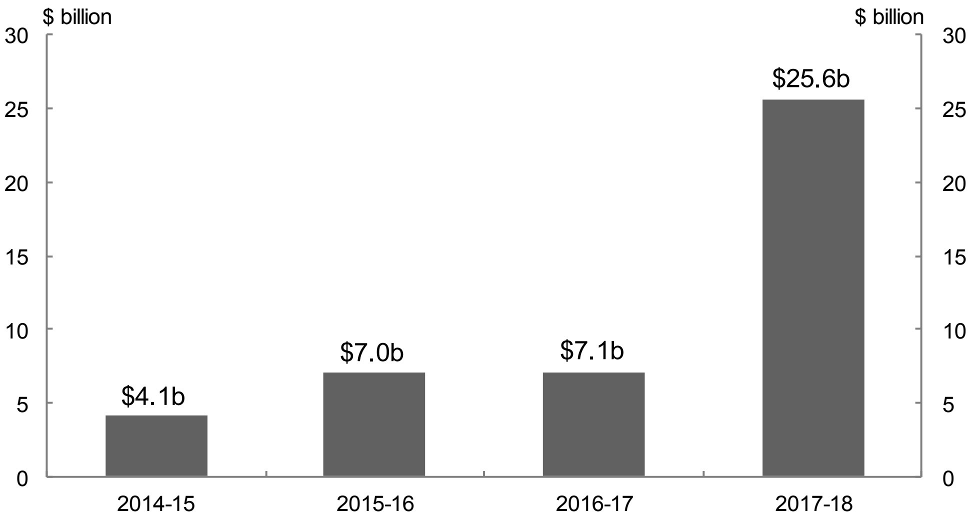
Statement 3: Fiscal Strategy and Outlook

Overview

The 2014-15 Budget reins in wasteful spending, improves the sustainability of our social safety net and encourages greater personal responsibility. The Government is asking all Australians to make a contribution to repair the budget and refocus government spending on those areas of the economy that will drive economic growth and safeguard our future prosperity. This Budget delivers medium-term structural budget reform by ensuring government spending is on a manageable trajectory, providing a credible path to a projected surplus and ensuring Australia's medium-term fiscal sustainability.

The deficits inherited from the former Government that were outlined in the 2013-14 MYEFO for the four years to 2016-17 totalled $123 billion. In our first four years to 2017-18, deficits are estimated to total just $60 billion — an improvement of $43.8 billion over these four years compared with the 2013-14 MYEFO. Savings decisions begin to have an impact from 2014-15 where government spending is redirected from recurrent expenditure to productive investments in infrastructure. A significant contribution to this improvement in the bottom line is in 2017-18 where a $25.6 billion improvement to the deficit includes hard decisions taken to deliver $20.3 billion of savings from payments. These decisions are needed to ensure the sustainability of the budget position in the medium term, reducing the average real growth in payments to 2.7 per cent from an unsustainable 3.7 per cent at the 2013-14 MYEFO. Current medium-term projections indicate a return to surplus by the end of the decade. There is however, much work still to be done to improve on that position.

Chart 1: Improvement of $43.8 billion to the budget position since the 2013-14 MYEFO in the four years to 2017-18



Note: The starting point for 2017-18 was a deficit of $28.4 billion.

The Government is budgeting for an underlying cash deficit of $29.8 billion (1.8 per cent of GDP) in 2014-15, improving to a deficit of $2.8 billion (0.2 per cent of GDP) in 2017-18 as shown in Table 1.

Table 1: Budget aggregates

	Actual	Estimates			Projections		
	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	Total(a)
Underlying cash balance ($b)(b)	**-18.8**	**-49.9**	**-29.8**	**-17.1**	**-10.6**	**-2.8**	**-110.1**
Per cent of GDP	-1.2	-3.1	-1.8	-1.0	-0.6	-0.2	
Fiscal balance ($b)	**-23.5**	**-45.1**	**-25.9**	**-12.2**	**-6.6**	**1.0**	**-88.7**
Per cent of GDP	-1.5	-2.8	-1.6	-0.7	-0.4	0.1	

(a) Total is equal to the sum of amounts from 2013-14 to 2017-18.
(b) Excludes net Future Fund earnings.

The Government's actions will also strengthen the Commonwealth's balance sheet by stabilising and then reducing debt. This will recharge the fiscal buffers to ensure we are able to respond to future economic challenges. The face value of Commonwealth Government Securities on issue is expected to fall from $667 billion in 2023-24 as outlined in the 2013-14 MYEFO to $389 billion, even with the Budget projection (unlike the MYEFO projection) building in future tax relief through an assumed tax cap of 23.9 per cent of GDP. [1]

Net financial worth is estimated to be -$329.2 billion (-20.2 per cent of GDP) in 2014-15 and is expected to stabilise at around -$352.7 billion (-18.7 per cent of GDP) in 2017-18.

FISCAL STRATEGY

The Government's fiscal strategy

In this Budget, the Government outlines its fiscal strategy, consistent with the requirements of the *Charter of Budget Honesty Act 1998* (See Box 1).

1 This is the average tax-to-GDP ratio of the years following the introduction of the GST and prior to the global financial crisis (from 2000-01 to 2007-08 inclusive).

Box 1: The Government's fiscal strategy

Medium-term fiscal strategy

The Government's medium-term fiscal strategy is to achieve budget surpluses, on average, over the course of the economic cycle.

Our strategy is underpinned by the following three policy elements:

- investing in a stronger economy by redirecting Government spending to quality investment to boost productivity and workforce participation;
- maintaining strong fiscal discipline to reduce the Government's share of the economy over time in order to free up resources for private investment to drive jobs and economic growth, with:
  - the payments-to-GDP ratio falling;
  - paying down debt by stabilising and then reducing Commonwealth Government Securities on issue over time; and
- strengthening the Government's balance sheet by improving net financial worth over time.

Budget repair strategy

The Budget repair strategy is designed to deliver budget surpluses building to at least 1 per cent of GDP by 2023-24 consistent with the medium-term fiscal strategy.

Our strategy sets out that:

- new spending measures will be more than offset by reductions in spending elsewhere within the budget;
- the overall impact of shifts in receipts and payments due to changes in the economy will be banked as an improvement to the budget bottom line, if this impact is positive; and
- a clear path back to surplus is underpinned by decisions that build over time.

The Budget repair strategy will stay in place until a strong surplus is achieved and so long as economic growth prospects are sound and unemployment remains low.

Delivering on the medium-term fiscal strategy

In the 2014-15 Budget, the Government has put the Budget on a far more sustainable footing consistent with the medium-term fiscal strategy.

Budget surpluses over the course of the economic cycle

This Budget enables the Government to deliver a substantial reduction of $43.8 billion in the underlying cash deficit since the 2013-14 MYEFO over the four years to 2017-18. The deficits at the 2013-14 MYEFO for the four years to 2017-18 totalled $104.1 billion, using the medium-term projection for 2017-18 of a deficit of $28.4 billion. The deficits over the same period in the 2014-15 Budget total $60.2 billion.

The headline annual pace of consolidation is 0.7 per cent of GDP over the forward estimates. Abstracting from the one-off nature of the Reserve Bank of Australia transaction, the pace of consolidation is 0.6 per cent of GDP. This pace of consolidation over the forward estimates strikes the right balance between the impact of fiscal consolidation on the economy and sustainable structural reforms.

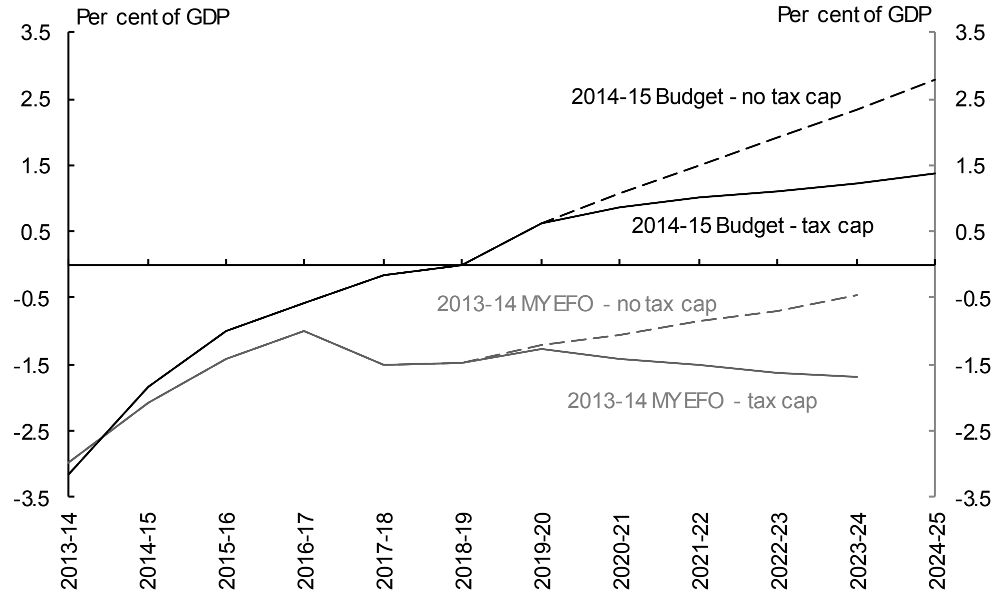
Beyond the forward estimates the savings measures in this Budget are expected to grow, contributing to a substantial improvement in the fiscal position.

Chart 2 shows the projected underlying cash balance under two scenarios. The no tax cap scenario allows the average tax rates to increase above the long-term average. If fiscal drag, including income tax bracket creep, is allowed to occur indefinitely then a rising personal income tax burden would also have negative impacts on workforce participation. This potential reduction in GDP growth has not been taken into account.

The tax cap scenario assumes that taxes are not allowed to grow beyond the average of 23.9 per cent of GDP.

In the tax cap scenario, the budget is projected to be at balance in 2018-19, and in a strong surplus of 1.4 per cent of GDP in 2024-25, delivering on the election commitment for surpluses to build to at least 1 per cent of GDP by 2023-24.

Chart 2: Underlying cash balance projected to 2024-25



Note: The underlying cash balance excludes Future Fund earnings and payments. MYEFO tax cap projection was not published at MYEFO.
Source: Treasury projections.

These projections are based on a further 10 years of uninterrupted economic growth. Such an outcome would take our record to 34 consecutive years of growth by 2024-25, a record unparalleled amongst advanced economies.

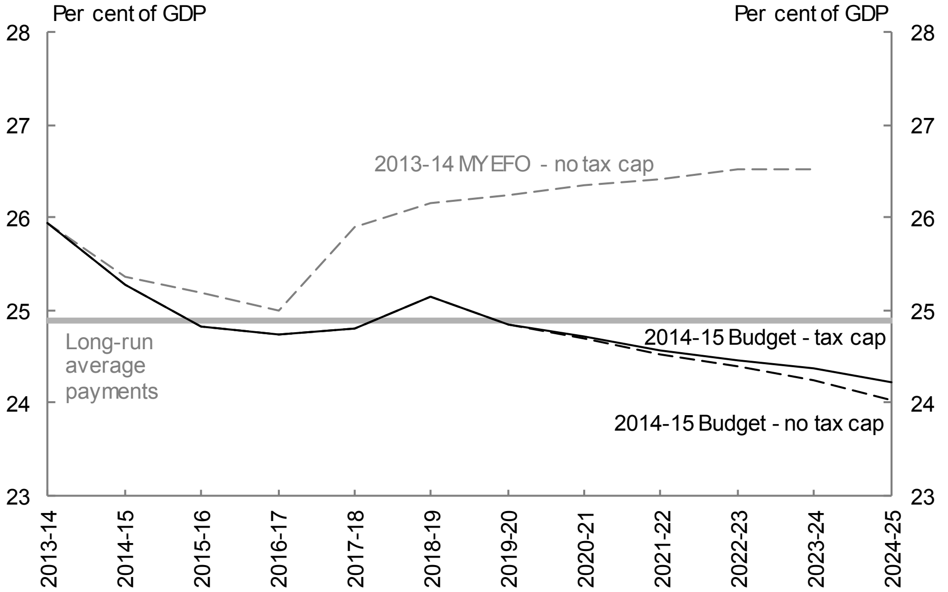
These projections do not assume a cap on real spending growth to achieve budget surpluses. Instead, the substantial improvement to the bottom line is built on a significant reduction in payments growth as a result of the Government's long-term budget savings.

In the tax cap scenario, average annual real payments growth over the medium term (the period from 2018-19 to 2024-25) falls to 2.7 per cent, compared to 3.7 per cent projected at the 2013-14 MYEFO. The payments-to-GDP ratio declines from 25.3 per cent of GDP in 2014-15 to 24.2 per cent in 2024-25, falling below the long-term average[2] as shown in Chart 3.

Total payments in the no tax cap scenario are lower than in the tax cap scenario because additional tax receipts reduce the issuance requirement for Commonwealth Government Securities and thereby lower public debt interest payments.

2 The long-term average payments-to-GDP ratio is 24.9 per cent of GDP, calculated over a 30 year period from 1983-84 to 2012-13.

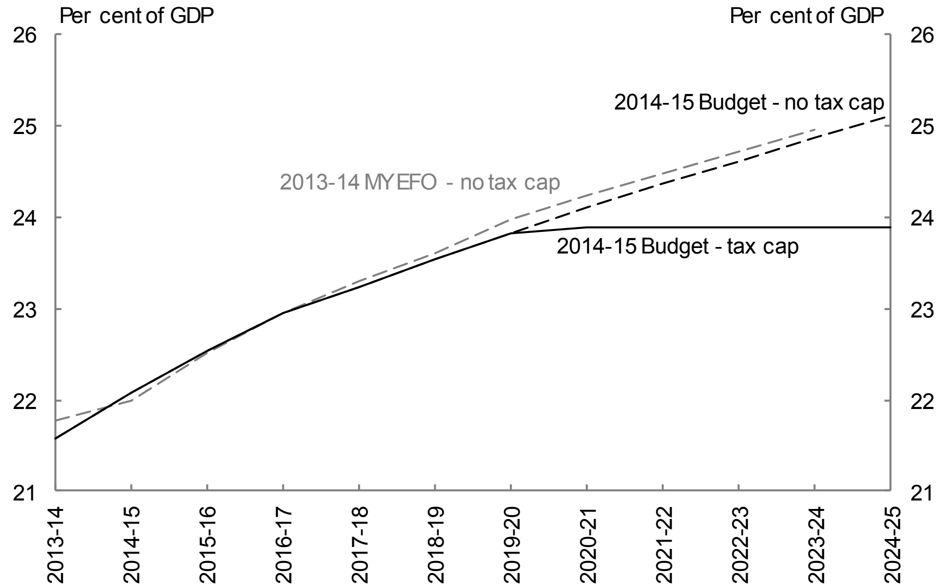
Chart 3: Total payments projected to 2024-25



Note: Total payments include Future Fund payments. MYEFO tax cap projection was not published at MYEFO.
Source: Treasury projections.

Chart 4 shows that in the scenario with no tax cap, tax receipts are projected to increase from 22.1 per cent of GDP in 2014-15 to 25.1 per cent in 2024-25.

Chart 4: Tax receipts projected to 2024-25



Note: Tax receipts make up the bulk, but not all, of total receipts. Non-tax receipts make up around 1.5 per cent of GDP.
Source: Treasury projections.

Investing in a stronger economy by redirecting government spending

A key element of the fiscal strategy is investing in a stronger economy by redirecting government spending to quality investments to boost productivity and participation.

To drive the productivity required to generate economic growth, the Government has refocused spending on infrastructure and reforms to higher education.

The Infrastructure Growth Package will provide additional infrastructure spending of $11.6 billion to address critical transport bottlenecks. This investment will take the Government's total investment in transport infrastructure to $50 billion by 2019-20. Total infrastructure investment from Commonwealth, State and local governments, as well as the private sector, will build to over $125 billion of additional infrastructure.

The Infrastructure Growth Package is designed to support economic growth in the short term and the economy's longer term productive capacity.

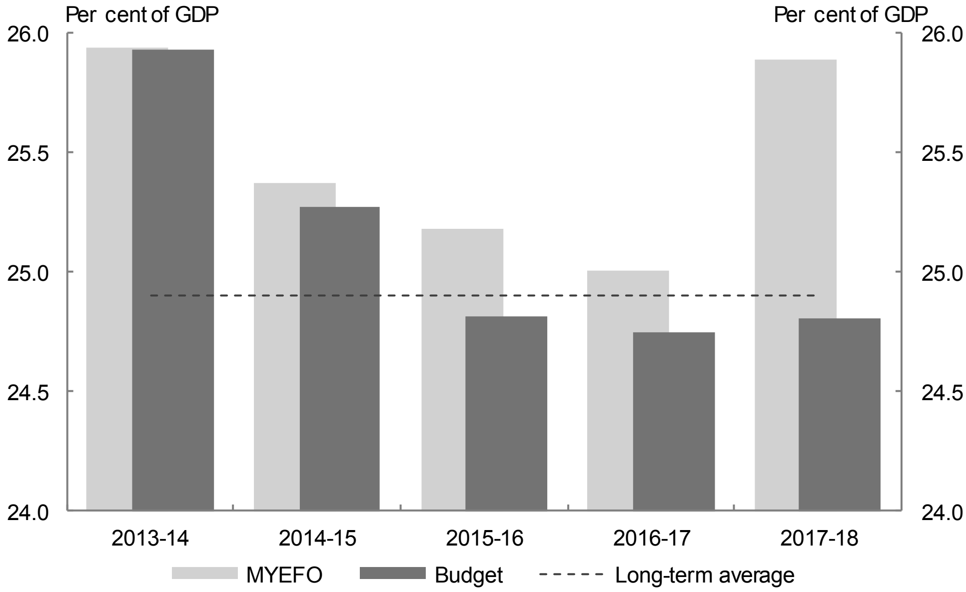
Strong fiscal discipline

The Government's fiscal strategy reflects a commitment to maintain the strong fiscal discipline required to pay down debt. This is a necessary part of reducing the Government's share of the economy over time in order to free up resources for private investment to drive jobs and economic growth, and live within our means.

The Government has begun the task of reducing the payments-to-GDP ratio which falls from 25.3 per cent of GDP in 2014-15 to 24.7 per cent of GDP in 2016-17, before returning to 24.8 per cent of GDP in 2017-18.

The Government recognises that this is only the first step in repairing the Budget and that there is further work to do.

Chart 5: Change in payments share between 2013-14 MYEFO and 2014-15 Budget



The slight rise in the payments-to-GDP ratio in 2017-18 occurs despite the Government's decisions that reduce government spending by $15.5 billion. The real growth in payments inherited in 2017-18 was 5.9 per cent. Without action, the growth in payments in 2017-18 would have been $38.0 billion, payments-to-GDP in 2017-18 would have been 25.9 per cent of GDP, and would have resulted in a deficit of $28.4 billion. The Government's decisions have reduced this real growth to 2.6 per cent and a deficit of $2.8 billion.

By 2024-25, the payments-to-GDP ratio is projected to reduce to 24.2 per cent of GDP. This is below the long term average of 24.9 per cent of GDP. A falling payments-to-GDP ratio will mean that the Government will be better placed to lower taxes.

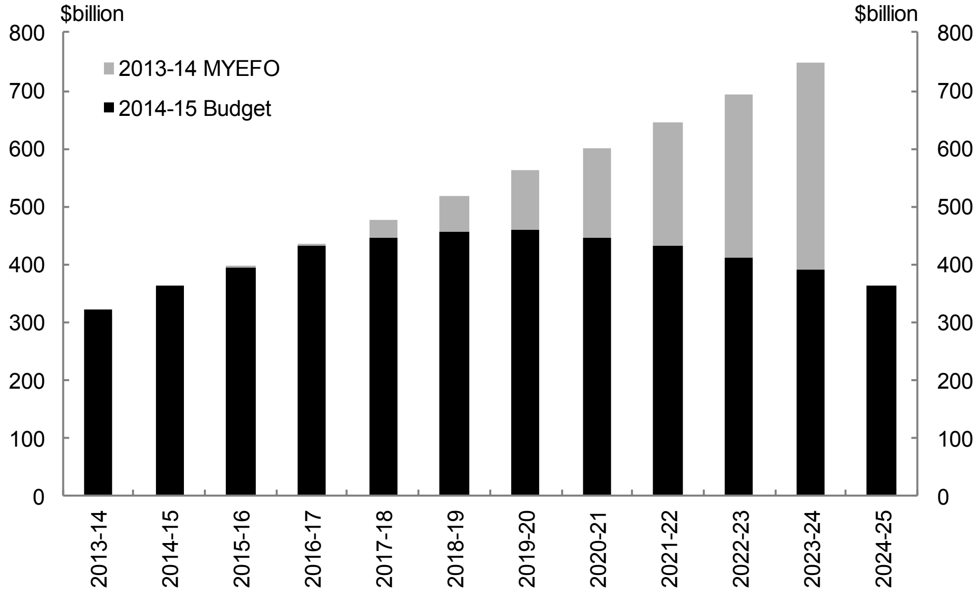
The Government will achieve fiscal consolidation through medium-term structural savings to the budget. These savings decisions will help to improve the sustainability and efficiency of Government spending. The largest savings beyond the forward estimates are through:

- changes to welfare payments for young people with full working capacity;
- changes to the funding of the Official Development Assistance programme;
- reforms to hospital funding and health expenditure, including new patient contributions to the costs of medical services;
- reforms to schools funding to drive efficient delivery of education services;

- changes to family tax benefits, including tightening of eligibility requirements;
- changes to the method of indexation of age and disability pensions; and
- reforms to higher education funding and student contributions.

In the scenario with a tax cap, Commonwealth Government Securities on issue in 2023-24 are expected to be $389 billion, compared to $748 billion if a tax cap had been in place at the 2013-14 MYEFO as shown in Chart 6.

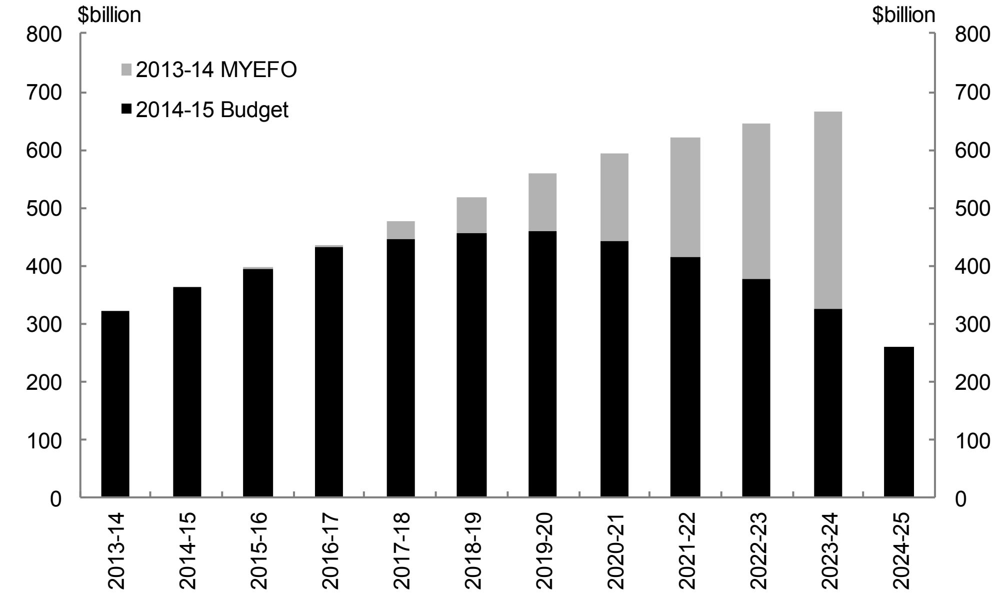
Chart 6: Face value of Commonwealth Government Securities on issue projected to 2024-25 — with tax cap



Note: A tax-to-GDP cap of 23.9 per cent has been applied on these projections. MYEFO tax cap projection was not published at MYEFO.
Source: Australian Office of Financial Management and Treasury projections.

In the scenario with no tax cap, Commonwealth Government Securities on issue in 2023-24 are expected to reach $326 billion, compared to $667 billion at the 2013-14 MYEFO as shown in Chart 7.

Chart 7: Face value of Commonwealth Government Securities on issue projected to 2024-25 — no tax cap



Source: Australian Office of Financial Management and Treasury projections.

Further details on debt reduction can be found in *Statement 7: Debt Statement, Assets and Liabilities*.

Strengthening the Government's balance sheet

Improving net financial worth over time, and stabilising and then reducing government debt will generate a stronger Commonwealth balance sheet and help to ensure ongoing fiscal sustainability. Returning the budget to surplus is a key part of achieving this outcome.

A strong balance sheet provides the Government the flexibility to respond to unanticipated events during times of financial crises or economic shocks. It can also provide flexibility in facilitating economic reform, address shortfalls in infrastructure investment and respond to structural changes in the economy, such as the ageing population.

Strengthening the Government's balance sheet means that government debt is kept at manageable levels, which reduces the interest cost burden. This has the benefit of more stable tax and spending policies and ensures future generations do not have to bear the burden of restoring weak finances.

Some key aggregates that provide indications of fiscal sustainability are net financial worth, net debt, net worth, and net interest payments set out in Table 2. Net financial worth is the primary indicator of fiscal sustainability articulated in the medium-term fiscal strategy. It provides a broader measure of the Government's assets and liabilities as it includes both the full assets of the Future Fund and the superannuation liability that the Future Fund is intended to offset.

Table 2: Net worth, net financial worth, net debt and net interest payments

	Estimates			Projections	
	2013-14	2014-15	2015-16	2016-17	2017-18
	$b	$b	$b	$b	$b
Financial assets	279.8	297.4	322.6	361.1	380.8
Non-financial assets	113.2	117.2	119.9	122.0	125.3
Total assets	**393.0**	**414.6**	**442.5**	**483.2**	**506.1**
Total liabilities	**579.4**	**626.6**	**665.0**	**712.2**	**733.4**
Net worth	**-186.4**	**-212.0**	**-222.5**	**-229.0**	**-227.4**
Net financial worth(a)	**-299.6**	**-329.2**	**-342.4**	**-351.0**	**-352.7**
Per cent of GDP	-18.9	-20.2	-20.0	-19.6	-18.7
Net debt(b)	**197.9**	**226.4**	**246.4**	**261.3**	**264.2**
Per cent of GDP	12.5	13.9	14.4	14.6	14.0
Net interest payments	**10.7**	**10.5**	**11.5**	**12.2**	**12.9**
Per cent of GDP	0.7	0.6	0.7	0.7	0.7

(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 financial worth is estimated to be -$329.2 billion (-20.2 per cent of GDP) in 2014-15, $6.0 billion worse than estimated at the 2013-14 MYEFO.

This deterioration reflects a downward revaluation of superannuation liabilities, and a fall in the value of the Government's investments in public sector entities. These negative impacts are partially offset by the higher value of investments held by the Government in newly established funds and other deposits. In 2016-17, net financial worth is projected to improve by $10.4 billion since the 2013-14 MYEFO. By 2017-18, it is projected to start stabilising at around -$352.7 billion. Net financial worth improves as a share of GDP, falling from -20.2 per cent of GDP in 2014-15 to -18.7 per cent of GDP in 2017-18.

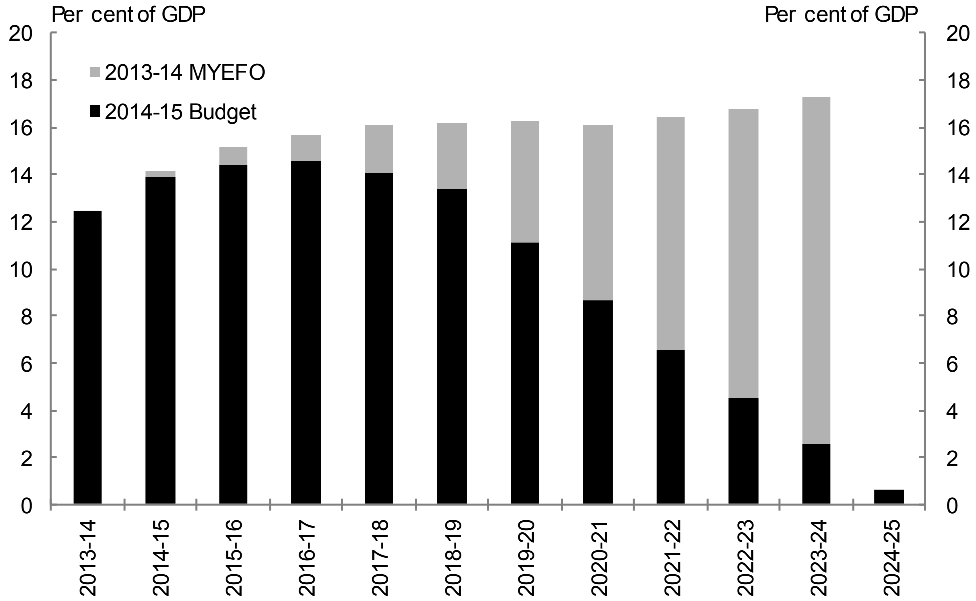
Net worth is expected to be -$212.0 billion in 2014-15, $5.0 billion worse than estimated at the 2013-14 MYEFO. Net worth is expected to be -$227.4 billion by the end of the forward estimates.

Net debt is estimated to be $226.4 billion in 2014-15 (13.9 per cent of GDP). As the definition of net debt does not include superannuation liabilities or equity investments (which drive the fall in net financial worth), net debt has improved by $4.7 billion in 2014-15 compared to the 2013-14 MYEFO. Net debt is expected to be $264.2 billion by the end of the forward estimates.

In the medium term under the tax cap scenario, net debt is projected to decline to 0.7 per cent of GDP in 2024-25 as shown in Chart 8. Given the fall in

Commonwealth Government Securities on issue, net financial worth is also expected to improve over the medium term.

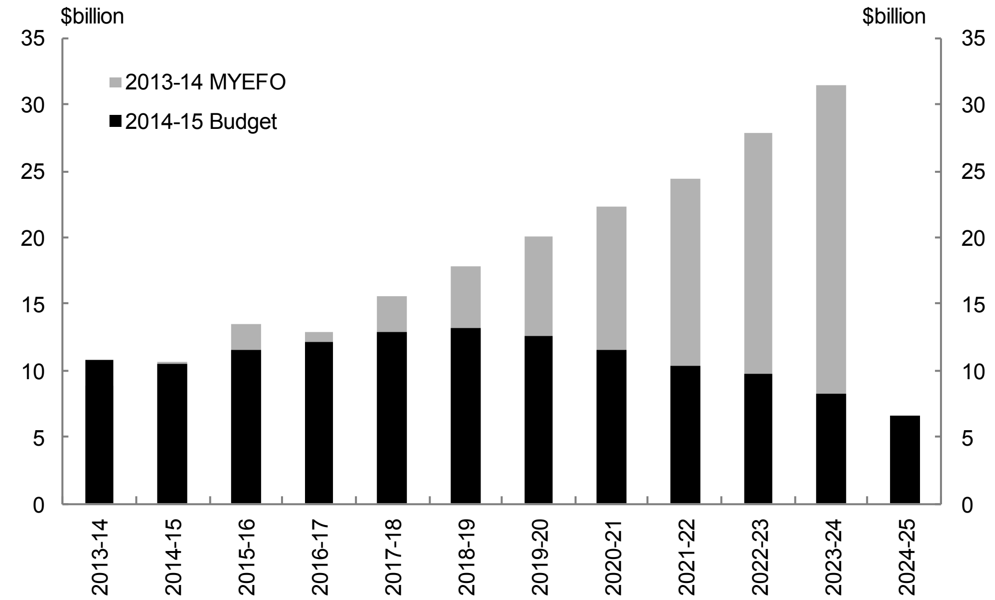
Chart 8: Net debt projected to 2024-25 — with tax cap



Note: A tax-to-GDP cap of 23.9 per cent has been applied on these projections. MYEFO tax cap projection was not published at MYEFO.
Source: Treasury projections.

The Government is determined to reduce the impact that servicing debt has on the budget. In the tax cap scenario, net interest payments are expected to peak at $13.1 billion in 2018-19 and decline to $6.6 billion in 2024-25 (0.2 per cent of GDP) as shown in Chart 9. In 2023-24, net interest payments would reduce from the 2013-14 MYEFO projection of $31.5 billion to $8.3 billion in this Budget. This is a reduction in net interest costs of $23.2 billion. With a AAA credit rating, Australia faces a relatively low cost of borrowing.

Chart 9: Net interest payments projected to 2024-25 — with tax cap



Note: Net interest payment is total interest receipts minus total interest payments. A tax-to-GDP cap of 23.9 per cent has been applied to these projections.
Source: Treasury projections.

Further details on debt interest costs can be found within *Statement 7: Debt Statement, Assets and Liabilities*.

Delivering on the budget repair strategy

The 2014-15 Budget drives the budget repair strategy that is designed to deliver budget surpluses building to at least 1 per cent of GDP by 2023-24.

All new decisions taken in this Budget have been more than fully offset, contributing to a clear path back to surplus. The Government has not used estimates variations from increased receipts or decreased payments to fund new spending.

The net budget impact of policy decisions is a $36.0 billion improvement to the underlying cash balance over the forward estimates to 2017-18. Over the same period, net increases in receipts from policy decisions have improved the underlying cash balance by $8.3 billion, while net savings from payments have improved the underlying cash balance by $27.7 billion. Of the decisions taken in this Budget, 77 per cent of the improvement to the bottom line is the result of reductions to spending.

As a result of decisions, receipts have increased by $8.9 billion over the forward estimates period to 2017-18, offset by decreases in receipts of $0.6 billion. Increases in receipts are as a result of decisions taken to repair the budget by introducing a temporary levy on individuals' incomes above $180,000 and removing poorly targeted tax concessions. In addition, receipts are increased by the reintroduction of the indexation of fuel excise rates which will be used to fund roads.

The Government has made $47.7 billion in savings from payments in this Budget over the forward estimates to 2017-18, to pay for new spending of $20.0 billion. The impact of these savings decisions builds over time, reducing payments growth, consistent with the policy to repair the Budget.

Real growth in payments is estimated to be -1.7 per cent in 2014-15, 0.4 per cent in 2015-16, 2.1 per cent in 2016-17 and 2.6 per cent in 2017-18. Over the four years to 2017-18, the average real growth in payments in the 2014-15 Budget of 0.8 per cent more than halves the average at the 2013-14 MYEFO of 1.9 per cent.

In the 2017-18 year, the Government has taken significant decisions to address increasing program costs, with savings from payments totalling $20.3 billion. This has reduced real payments growth between 2016-17 and 2017-18 from 5.9 per cent at the 2013-14 MYEFO to 2.6 per cent in this Budget. These structural savings decisions build over time and are instrumental in restoring the budget to a more sustainable position over the medium term.

FISCAL OUTLOOK

Budget aggregates

An underlying cash deficit of $29.8 billion (1.8 per cent of GDP) is expected in 2014-15, improving to a deficit of $2.8 billion (0.2 per cent of GDP) in 2017-18.

A headline cash deficit of $33.5 billion (2.1 per cent of GDP) is expected in 2014-15, improving to a deficit of $11.4 billion (0.6 per cent of GDP) in 2017-18.

In accrual terms, a fiscal deficit of $25.9 billion (1.6 per cent of GDP) is expected for 2014-15, improving to a surplus of $1.0 billion (0.1 per cent of GDP) in 2017-18.

Table 3 provides key budget aggregates for the Australian Government general government sector.

Table 3: Australian Government general government sector budget aggregates

	Actual	Estimates			Projections		
	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	Total(a)
	$b	$b	$b	$b	$b	$b	$b
Receipts	**351.1**	**363.5**	**385.8**	**410.4**	**436.8**	**468.0**	**2,064.5**
Per cent of GDP	23.1	23.0	23.6	24.0	24.4	24.9	
Payments(b)	**367.2**	**410.7**	**412.5**	**424.2**	**443.9**	**467.1**	**2,158.4**
Per cent of GDP	24.1	25.9	25.3	24.8	24.7	24.8	
Net Future Fund earnings	2.7	2.7	3.1	3.3	3.5	3.8	16.3
Underlying cash balance(c)	**-18.8**	**-49.9**	**-29.8**	**-17.1**	**-10.6**	**-2.8**	**-110.1**
Per cent of GDP	-1.2	-3.1	-1.8	-1.0	-0.6	-0.2	
Revenue	**360.2**	**374.3**	**391.3**	**419.6**	**449.8**	**480.4**	**2,115.5**
Per cent of GDP	23.6	23.6	24.0	24.5	25.1	25.5	
Expenses	**382.6**	**415.3**	**414.8**	**431.1**	**453.8**	**475.4**	**2,190.5**
Per cent of GDP	25.1	26.2	25.4	25.2	25.3	25.3	
Net operating balance	-22.5	-41.0	-23.5	-11.5	-4.0	4.9	-75.0
Net capital investment	1.0	4.0	2.4	0.7	2.6	4.0	13.7
Fiscal balance	**-23.5**	**-45.1**	**-25.9**	**-12.2**	**-6.6**	**1.0**	**-88.7**
Per cent of GDP	-1.5	-2.8	-1.6	-0.7	-0.4	0.1	
Memorandum item:							
Headline cash balance	-21.0	-53.7	-33.5	-26.6	-22.7	-11.4	-148.0

(a) Total is equal to the sum of amounts from 2013-14 to 2017-18.
(b) Equivalent to cash payments for operating activities, purchases of non-financial assets and net acquisition of assets under finance leases.
(c) Excludes net Future Fund earnings.

Table 4 provides a summary of the cash flows of the Australian Government general government sector.

Table 4: Summary of Australian Government general government sector cash flows

	Estimates			Projections	
	2013-14	2014-15	2015-16	2016-17	2017-18
	$b	$b	$b	$b	$b
Cash receipts					
Operating cash receipts	363.0	383.5	407.7	436.6	467.8
Capital cash receipts(a)	0.5	2.2	2.7	0.2	0.2
Total cash receipts	363.5	385.8	410.4	436.8	468.0
Cash payments					
Operating cash payments	400.4	401.7	414.4	434.5	456.1
Capital cash payments(b)	9.8	10.8	9.8	9.4	11.0
Total cash payments	410.2	412.5	424.2	443.9	467.1
Finance leases and similar arrangements(c)	0.5	0.0	0.0	0.0	0.0
GFS cash surplus(+)/deficit(-)	**-47.2**	**-26.7**	**-13.8**	**-7.1**	**0.9**
Per cent of GDP	-3.0	-1.6	-0.8	-0.4	0.0
less Net Future Fund earnings	2.7	3.1	3.3	3.5	3.8
Underlying cash balance(d)	**-49.9**	**-29.8**	**-17.1**	**-10.6**	**-2.8**
Per cent of GDP	-3.1	-1.8	-1.0	-0.6	-0.2
Memorandum items:					
Net cash flows from investments in financial assets for policy purposes	-6.6	-6.8	-12.8	-15.6	-12.4
plus Net Future Fund earnings	2.7	3.1	3.3	3.5	3.8
Headline cash balance	**-53.7**	**-33.5**	**-26.6**	**-22.7**	**-11.4**

(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.

Underlying cash balance estimates

The estimated underlying cash deficit in 2014-15 has improved by $4.1 billion, to $29.8 billion compared to the 2013-14 MYEFO.

As outlined in the 2013-14 MYEFO the deficits inherited from the former Government from the four years to 2016-17 totalled $122.6 billion. In the Government's first four years to 2017-18, deficits are estimated to total $60.2 billion.

The change in the estimated underlying cash balance since the 2013-14 MYEFO is largely a result of major policy decisions, saving the bottom line $17.6 billion over the four years to 2016-17. As a result of decisions, the Government has improved the bottom line by a further $18.5 billion in 2017-18.

Since the 2013-14 MYEFO, parameter and other variations have worsened the bottom line by $2.2 billion in the four years to 2016-17. There have also been changes made to the projection methodology used to formulate projections for economic parameters factored into the budget. Further information on this change is detailed in *Statement 2: Economic Outlook*. Over the projection period, as a result of the revised methodology nominal GDP is higher, with stronger real GDP growth only partially offset by a lower GDP deflator, the number of unemployment benefit recipients is lower and growth in wage-indexed payments is slower. Compared with the 2013-14 MYEFO, the revised projection methodology results in a reduction in the underlying cash balance of $0.3 billion (0.02 per cent of GDP) in 2016-17 and an increase of $0.9 billion (0.05 per cent of GDP) in 2017-18. By 2024-25, the new methodology increases the underlying cash balance by $3.4 billion (0.12 per cent of GDP).

Table 5: Reconciliation of underlying cash balance estimates

	Estimates			Projections	
	2013-14	2014-15	2015-16	2016-17	Total
	$m	$m	$m	$m	$m
2013-14 Budget underlying cash balance(a)	**-18,043**	**-10,888**	**849**	**6,591**	**-21,491**
Per cent of GDP	-1.1	-0.6	0.0	0.4	
Changes from 2013-14 Budget to 2013 PEFO					
Effect of policy decisions(b)	-374	-1,663	3,315	6,915	8,193
Effect of parameter and other variations	-11,725	-11,429	-8,826	-9,307	-41,288
Total variations	**-12,099**	**-13,093**	**-5,511**	**-2,392**	**-33,095**
2013 PEFO underlying cash balance(a)	**-30,142**	**-23,981**	**-4,662**	**4,199**	**-54,586**
Per cent of GDP	-1.9	-1.5	-0.3	0.2	
Changes from 2013 PEFO to 2013-14 MYEFO					
Effect of policy decisions(b)	-10,266	-655	-1,505	-1,274	-13,700
Effect of parameter and other variations	-6,582	-9,272	-17,916	-20,592	-54,362
Total variations	**-16,848**	**-9,926**	**-19,421**	**-21,866**	**-68,061**
2013-14 MYEFO underlying cash balance(a)	**-46,989**	**-33,907**	**-24,083**	**-17,668**	**-122,647**
Per cent of GDP	-3.0	-2.1	-1.4	-1.0	
Changes from 2013-14 MYEFO to 2014-15 Budget					
Effect of policy decisions(b)(c)					
Receipts	*-2*	*673*	*1,916*	*2,786*	*5,373*
Payments	*512*	*-1,045*	*-4,018*	*-7,628*	*-12,180*
Total policy decisions impact on underlying cash balance	-514	1,718	5,934	10,414	17,552
Effect of parameter and other variations(c)					
Receipts	*-1,432*	*2,362*	*-573*	*1,247*	*1,604*
Payments	*1,102*	*-167*	*-1,761*	*4,430*	*3,603*
less Net Future Fund earnings	*-182*	*114*	*124*	*126*	*182*
Total parameter and other variations impact on underlying cash balance	-2,352	2,416	1,065	-3,309	-2,180
2014-15 Budget underlying cash balance(a)	**-49,855**	**-29,773**	**-17,084**	**-10,562**	**-107,275**
Per cent of GDP	-3.1	-1.8	-1.0	-0.6	

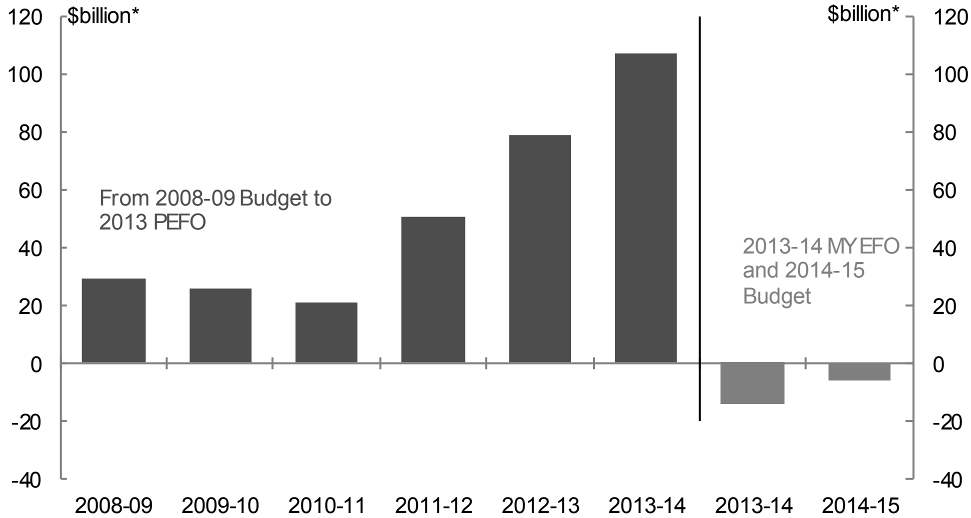
(a) Excludes net Future Fund earnings.
(b) Excludes secondary impacts on public debt interest of policy decisions and offsets from the Contingency Reserve for decisions taken.
(c) A positive number for receipts indicates an increase in the underlying cash balance, while a positive number for payments indicates a decrease in the underlying cash balance.

Receipts estimates

Total receipts are expected to be $3.0 billion higher in 2014-15 than estimated at the 2013-14 MYEFO, tax receipts are $1.8 billion higher and non-tax receipts are $1.3 billion higher.

Since the 2013-14 MYEFO, over the four years to 2016-17, total receipts have been revised up by $5.4 billion from policy decisions and revised up by $1.6 billion from parameter and other variations.

Chart 10: Government decisions have lowered the overall impact of revenue measures



*Cumulative value of revenue measures taken in each budget year

Policy decisions

Policy decisions since the 2013-14 MYEFO are expected to increase receipts by $673 million in 2014-15, $1.9 billion in 2015-16, $2.8 billion in 2016-17 and $2.9 billion in 2017-18. These decisions include: reintroducing the indexation of fuel excise, introducing a temporary levy on individuals' incomes above $180,000 and removing poorly targeted tax concessions.

Significant measures include:

- Reintroducing the indexation of fuel excise rates. From 1 August 2014, fuel excise and fuel excise-equivalent customs duty will be indexed biannually in line with the consumer price index. This is expected to increase receipts by $4.2 billion over the forward estimates period, however taking into account the corresponding payments increases, such as to fuel tax credits, the net increase in the underlying cash balance is $2.3 billion.

- The introduction of a Temporary Budget Repair Levy. From 1 July 2014 until 30 June 2017, there will be a temporary levy of two per cent on individuals' taxable income above $180,000. This measure is expected to increase receipts by $3.1 billion over the forward estimates period.

- The Mature Age Workers Tax Offset and the Dependent Spouse Tax Offset will both be abolished from 1 July 2014. Removing these tax concessions that are no longer well targeted, is expected to increase receipts by $1.1 billion over the forward estimates period.

Parameter and other variations

While the forecast for nominal GDP is similar to the 2013-14 MYEFO, estimated changes to the components of growth have affected the composition of tax receipts. Stronger than expected company profits and household consumption have resulted in upward revisions to company tax and GST, while weaker than expected wage growth has contributed to the write-down to taxes from individuals and superannuation funds.

This has resulted in a small overall downward revision to total tax receipts of $1.8 billion in 2013-14 and $2.9 billion over the four years to 2016-17 compared with the 2013-14 MYEFO. Excluding GST, tax receipts are expected to be lower by $2.6 billion in 2013-14 and $7.4 billion over the four years to 2016-17.

Since the 2013-14 MYEFO, non-tax receipts have increased by $1.3 billion in 2014-15 and $4.8 billion over the four years to 2016-17. The increase in 2014-15 primarily reflects higher forecasts of expected dividend and interest receipts ($479 million). In addition, recognition of State and Territory contributions to the National Disability Insurance Scheme (NDIS) for the first time has increased non-tax receipts by $176 million in 2014-15 ($3.1 billion over the four years to 2016-17). These State and Territory contributions are directly offset by a corresponding increase in payments to NDIS recipients.

Analysis of the sensitivity of the receipts estimates to changes in the economic outlook is provided in Appendix A to this Statement.

Payment estimates

Since the 2013-14 MYEFO, total cash payments for 2014-15 have decreased by $1.2 billion, comprised of new policy decisions which have decreased payments by $1.0 billion and parameter and other variations which have decreased payments by $167 million.

Policy decisions

The net impact of policy decisions since the 2013-14 MYEFO is expected to decrease payments by $1.0 billion in 2014-15, $4.0 billion in 2015-16, $7.6 billion in 2016-17 and $15.5 billion in 2017-18. These decisions include:

- establishing the Asset Recycling Initiative, which will provide State and Territory governments with incentive payments to unlock capital from state-owned assets and reinvest the proceeds in new productivity-enhancing economic infrastructure. The Initiative is expected to increase cash payments by $335 million in 2014-15 ($5.0 billion over the five years to 2018-19);

- funding for new infrastructure investments, under the Infrastructure Investment Programme to support economic growth, which is expected to increase cash payments by $202 million in 2014-15 ($3.7 billion over the five years to 2017-18). Funding will be provided to States and Territories to expedite existing large infrastructure projects and new high productivity infrastructure projects ($2.9 billion), and to boost funding for the existing Black Spot Programme ($200 million), Roads to Recovery Programme ($350 million), and the National Highway Upgrade Programme ($229 million);

- delivering a Western Sydney Infrastructure Plan, by funding major road projects for the development of a second Sydney airport at Badgerys Creek and providing the transport infrastructure necessary to support a growing population in Western Sydney. This Plan is expected to increase cash payments by $103 million in 2014-15 ($2.9 billion over the ten years to 2023-24);

- establishing the Emissions Reduction Fund from 1 July 2014, which will provide an incentive based approach to support abatement activities across the economy to contribute to Australia meeting its target of reducing emissions by 5 per cent below year 2000 levels by the year 2020. This measure is expected to increase cash payments by $75 million in 2014-15 ($2.6 billion over the ten years to 2023-24); and

- strengthening incentives for mature age job seekers to re-enter the workforce with the creation of a new wage subsidy — *Restart* — which is expected to increase cash payments by $18 million in 2014-15 ($304 million over the four years to 2017-18). A payment of up to $10,000 will be available to employers who hire a mature age job seeker aged 50 years or over. The $221 million over four years for a seniors employment incentive payment, previously announced at the 2013-14 MYEFO, will also be redirected to the *Restart* Programme.

The impact of these policy decisions on payments has been more than offset over the five years to 2017-18 by a number of decisions that have reduced cash payments, including:

- maintaining official development assistance (ODA) at its nominal 2013-14 level of $5 billion in both 2014-15 and 2015-16 and growing it in line with the consumer price index from 2016-17. This measure is expected to decrease cash payments by $559 million in 2014-15 ($7.9 billion over the five years to 2017-18, which includes $2.0 billion in 2017-18 from extinguishing a provision for new ODA spending);

- reducing Medicare Benefits Schedule rebates by $5 for general practitioner consultations and out-of-hospital pathology and diagnostic imaging services and allowing the providers of these services to collect a $7 patient contribution, which is expected to reduce cash payments by $3.4 billion over the five years to 2017-18. These savings will be reinvested in the Medical Research Future Fund, which will be established on 1 January 2015;

- maintaining current Family Tax Benefit (FTB) payment rates in nominal terms for two years from 1 July 2014, which is expected to reduce cash payments by $377 million in 2014-15 ($2.6 billion over the four years to 2017-18);

- limiting eligibility for the FTB Part B to families whose youngest child is younger than six years of age from 1 July 2015, with transitional arrangements for two years, which is expected to increase cash payments by $17 million in 2014-15 but reduce cash payments by $1.6 billion over the five years to 2017-18; and

- changing access to income support arrangements for people under 30 years of age, to encourage young people with full work capacity to be earning, learning or participating in Work for the Dole. This is expected to reduce cash payments by $221 million in 2014-15 ($1.2 billion over the four years to 2017-18).

Further details of Government policy decisions are provided in Budget Paper No. 2, *Budget Measures 2014-15*. The expense estimates provided in Budget Paper No. 2 are in accrual terms and may not align with the payment figures provided in this Statement.

Parameter and other variations

This Budget also incorporates some major changes in expected payments in 2014-15 as a result of parameter and other variations since the 2013-14 MYEFO. Major increases include:

- Disability Support Pension payments, which are expected to be $325 million higher in 2014-15 ($962 million over the four years to 2016-17), largely reflecting higher than expected average payment rates and marginally higher than expected customer numbers;

- Private Health Insurance Rebate payments, which are expected to be $300 million higher in 2014-15 ($1.8 billion over the four years to 2016-17), 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;

- Child Care Fee Assistance payments, which are expected to be $298 million higher in 2014-15 ($1.1 billion over the four years to 2016-17), largely reflecting higher than expected utilisation of child care services;

- Payments under the Natural Disaster Relief and Recovery Arrangements, which are expected to be $244 million higher in 2014-15 (although a reduction in payments of

$96 million is expected over the four years to 2016-17). This primarily relates to an expected delay in disaster recovery payments to Queensland, which largely reflects a delay in the completion of reconstruction works as a result of drought;

- Defence payments, mainly in relation to capital purchases, which are expected to be $186 million higher in 2014-15 ($436 million over the four years to 2016-17) as a result of foreign exchange rate movements; and
- National Disability Insurance Scheme (NDIS) payments, which are expected to be $176 million higher in 2014-15 ($3.1 billion over the four years to 2016-17), reflecting the recognition of payments made on behalf of the States and Territories for the first time. This increase in payments is directly offset by an increase in non-tax receipts reflecting State and Territory contributions to the Scheme.

Major reductions in expected payments in 2014-15 as a result of parameter and other variations since MYEFO, include:

- Illegal Maritime Arrival management costs, which are expected to be $309 million lower in 2014-15 ($1.6 billion over the four years to 2016-17), reflecting the impact of reduced forecasts and projections of the numbers of Illegal Maritime Arrivals;
- Income Support for Seniors payments, which are expected to be $307 million lower in 2014-15 ($2.1 billion over the four years to 2016-17), reflecting lower than expected customer numbers and average payment rates, related to the incremental increase in the Age Pension age and an improvement in the value of financial assets held by part–rate pensioners;
- Payments under the National Health Reform Agreement, which are expected to be $243 million lower in 2014-15 ($1.0 billion over the four years to 2016-17), due to a lower than expected rate of hospital utilisation and slower than expected growth in the price of hospital services;
- Payments under the National Rental Affordability Scheme which are expected to be $121 million lower in 2014-15 ($312 million over the four years to 2016-17), reflecting a lower than anticipated number of dwellings delivered through the National Rental Affordability Scheme; and
- Fuel Tax Credit payments, which are expected to be $119 million lower in 2014-15 ($140 million over the four years to 2016-17), reflecting lower than expected usage of fuels which are eligible for the payments.

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 the Other Purposes section of *Statement 6: Expenses and Net Capital Investment.*

Analysis of the sensitivity of payments estimates to changes in the economic outlook is provided in Appendix A to this Statement.

Fiscal balance estimates

The fiscal deficit is expected to be $25.9 billion (1.6 per cent of GDP) in 2014-15, which reflects an improvement of $5.6 billion compared to the 2013-14 MYEFO.

Table 6 provides a reconciliation of the variations in the fiscal balance since the 2013-14 Budget.

Table 6: Reconciliation of fiscal balance estimates

	Estimates			Projections	
	2013-14	2014-15	2015-16	2016-17	Total
	$m	$m	$m	$m	$m
2013-14 Budget fiscal balance	**-13,497**	**-6,255**	**5,955**	**10,819**	**-2,978**
Per cent of GDP	-0.8	-0.4	0.3	0.6	
Changes from 2013-14 Budget to 2013 PEFO					
Effect of policy decisions(a)	-749	-3,835	4,712	6,515	6,643
Effect of parameter and other variations	-11,262	-11,988	-8,820	-9,543	-41,613
Total variations	**-12,011**	**-15,823**	**-4,109**	**-3,028**	**-34,970**
2013 PEFO fiscal balance	**-25,508**	**-22,078**	**1,847**	**7,792**	**-37,948**
Per cent of GDP	-1.6	-1.3	0.1	0.4	
Changes from 2013 PEFO to 2013-14 MYEFO					
Effect of policy decisions(a)	-8,063	-207	-1,450	-1,185	-10,905
Effect of parameter and other variations	-8,272	-9,218	-19,173	-21,062	-57,726
Total variations	**-16,335**	**-9,426**	**-20,623**	**-22,247**	**-68,631**
2013-14 MYEFO fiscal balance	**-41,843**	**-31,504**	**-18,776**	**-14,456**	**-106,579**
Per cent of GDP	-2.7	-1.9	-1.1	-0.8	
Changes from 2013-14 MYEFO to 2014-15 Budget					
Effect of policy decisions(a)(b)					
Revenue	1	720	2,032	2,762	5,515
Expenses	51	-1,939	-5,498	-7,688	-15,075
Net capital investment	460	388	688	216	1,753
Total policy decisions impact on fiscal balance	-510	2,271	6,842	10,234	18,837
Effect of parameter and other variations(b)					
Revenue	343	2,746	157	2,046	5,292
Expenses	3,184	-974	597	4,384	7,190
Net capital investment	-139	343	-160	36	80
Total parameter and other variations impact on fiscal balance	-2,702	3,377	-280	-2,374	-1,978
2014-15 Budget fiscal balance	**-45,055**	**-25,855**	**-12,214**	**-6,596**	**-89,720**
Per cent of GDP	-2.8	-1.6	-0.7	-0.4	

(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.

Revenue estimates

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.

Expense and net capital investment estimates

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

- an increase in the accrued superannuation expenses for civilian and military superannuation schemes of $3.5 billion, where there are differences between the timing of cash payments and accrued expenses;
- a decrease in Higher Education Loan Programme (HELP) expenses of $2.1 billion, where the value of the concessionality of the loans has reduced as a result of changing the indexation applied to HELP debts from 1 June 2016; and
- an increase in expenses of $756 million in relation to the concessional loan the Government will provide to accelerate the delivery of the WestConnex Stage 2 project.

Detailed information on expenses and net capital investment can be found in *Statement 6: Expenses and Net Capital Investment*.

Headline cash balance estimates

The headline cash balance consists of the underlying cash balance, net cash flows from investments in financial assets for policy purposes (for example, the equity funding of NBN Co), and net Future Fund earnings.

Table 7 provides further detail between the underlying and headline cash balance estimates of the Australian Government general government sector.

Table 7: Details of the Australian Government general government sector items between the underlying and headline cash balance estimates

	Estimates		Projections			
	2013-14	2014-15	2015-16	2016-17	2017-18	Total
	$m	$m	$m	$m	$m	$m
2014-15 Budget underlying cash balance(a)	**-49,855**	**-29,773**	**-17,084**	**-10,562**	**-2,825**	**-110,099**
plus Net cash flows from investments in financial assets for policy purposes						
Student loans	-4,630	-5,598	-6,885	-8,091	-9,258	-34,462
NBN investment	-3,380	-5,200	-6,420	-6,865	-2,407	-24,272
Residential mortgage backed securities	2,894	1,556	1,495	954	611	7,510
WestConnex	0	0	-226	-854	-831	-1,912
Trade support loans	0	-144	-460	-511	-563	-1,677
Net other	-1,458	2,566	-291	-225	90	683
Total net cash flows from investments in financial assets for policy purposes	**-6,575**	**-6,819**	**-12,787**	**-15,592**	**-12,358**	**-54,131**
plus Net Future Fund earnings	2,689	3,068	3,262	3,499	3,750	16,267
2014-15 Budget headline cash balance	**-53,741**	**-33,524**	**-26,609**	**-22,656**	**-11,432**	**-147,963**

(a) Excludes expected net Future Fund earnings.

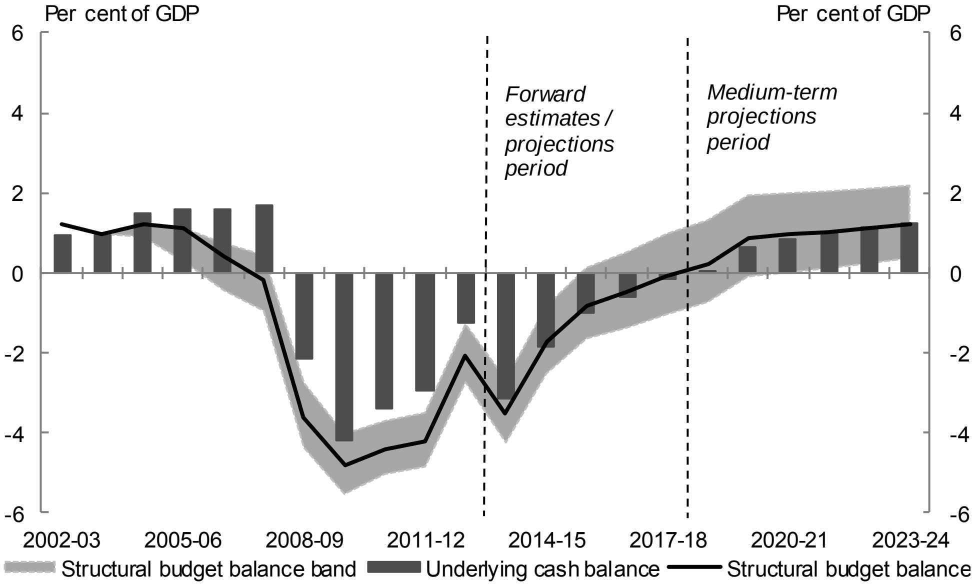
The headline cash balance for 2014-15 is estimated to be a deficit of $33.5 billion (2.1 per cent of GDP), compared with a deficit of $42.4 billion at 2013-14 MYEFO (2.6 per cent of GDP). Over the four years to 2017-18, the headline cash deficit improves by $22.1 billion, from $33.5 billion in 2014-15 to $11.4 billion in 2017-18.

The improvement in the headline cash balance is primarily driven by policy decisions that have affected the underlying cash balance. From 2015-16, this improvement from policy decisions has been partially offset by changes to the Higher Education Loan Program and bringing forward some NBN Co equity funding to within the forward estimates.

Structural budget balance estimates

The outlook for the structural budget balance has improved significantly since the 2013-14 MYEFO, in line with the improvement in the outlook for the underlying cash balance. The structural position of the budget is forecast to improve to around balance by 2018-19 and is projected to be in surplus beyond that. By comparison, at the 2013-14 MYEFO the budget was expected to remain in structural deficit throughout the entire medium-term projections period. Following a prolonged period of significant structural deficits, the policy decisions taken by the Government are projected to restore the budget to a position that is structurally sustainable in the medium term.

Chart 11: Structural budget balance estimates[3]



Note: The grey range spans structural budget estimates using the average terms of trade between 1986-87 and 2010-11 (lower bound), which is the OECD's assumption for Australia's structural level of the terms of trade, and using the forecast average from 2003-04 to 2015-16 (upper bound). The central estimate is based on the structural level of the terms of trade in the Government's medium-term economic projections. The methodology for producing the structural budget balance estimates was detailed in Treasury Working Paper 2013-01.
Source: ABS cat. no. 5206.0, 5302.0, 6202.0, 6401.0 and Treasury.

Structural budget balance measures are sensitive to the assumptions and parameters underpinning the estimates, including identifying the structural level of the terms of trade and the relationship between tax receipts and economic activity. Due to the sensitivity of estimates to assumptions, it is best to consider a range of structural budget balance estimates based on plausible assumptions for the underlying parameters as one element of a broader assessment of fiscal sustainability.

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3 The structural budget balance estimates shown in Chart 11 incorporate the changes to the medium-term economic projections framework detailed in Budget Statement 2 and Treasury Working Papers 2014-01 and 2014-02. Because structural budget balance calculations are sensitive to estimates of the output gap, these methodological changes have resulted in revisions to the structural budget balance estimates. The peak impact is in 2015-16, when the structural budget deficit is projected to be 0.8 percentage points smaller than would have been the case had the previous medium-term projections framework been retained. The impact becomes smaller as the estimated output gap closes, falling to 0.5 percentage points in 2018-19 and close to zero by 2022-23. These impacts are within the range of structural balance estimates shown in the 2013-14 MYEFO and do not affect the result that the budget was projected to remain in structural deficit throughout the medium-term projections period at the 2013-14 MYEFO and is now projected to reach structural balance in around 2018-19.

APPENDIX A: SENSITIVITY OF THE BUDGET TO ECONOMIC DEVELOPMENTS

SENSITIVITY OF BUDGET ESTIMATES TO ECONOMIC DEVELOPMENTS

The estimates contained in the 2014-15 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. Even small movements in economic parameters can result in large changes to the budget aggregates.

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 2014-15 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 2015-16. 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 2015-16 (per cent deviation from the baseline level)

	2014-15 per cent	2015-16 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 $2.6 billion in 2014-15 and around $5.4 billion in 2015-16 (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

	2014-15	2015-16
	$b	$b
Receipts		
Individuals' and other withholding taxes	-0.6	-1.6
Superannuation fund taxes	0.0	-0.2
Company tax	-1.8	-3.1
Goods and services tax	-0.1	-0.3
Excise and customs duty	0.0	-0.1
Other taxes	-0.1	-0.1
Total receipts	**-2.6**	**-5.4**
Payments		
Income support	-0.1	-0.2
Other payments	0.0	0.1
Goods and services tax	0.1	0.3
Total payments	**0.0**	**0.2**
Public debt interest	0.0	-0.2
Underlying cash balance impact(a)	**-2.6**	**-5.4**

(a) Estimated impacts fall within the 70 per cent confidence intervals for years 2014-15 and 2015-16, as shown in Appendix B Charts B3 to B5.

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 2015-16. 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 spending on unemployment benefits in 2015-16 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 dampen 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 from 2014-15. 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 from 2014-15 (per cent deviation from the baseline level)

	2014-15 per cent	2015-16 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 2014-15 and around $3.8 billion in 2015-16 (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

	2014-15	2015-16
	$b	$b
Receipts		
Individuals' and other withholding taxes	1.7	1.4
Superannuation fund taxes	0.1	0.2
Company tax	1.1	1.7
Goods and services tax	0.5	0.6
Excise and customs duty	0.3	0.3
Other taxes	0.0	0.0
Total receipts	**3.7**	**4.2**
Payments		
Income support	-0.1	-0.1
Other payments	0.0	0.1
Goods and services tax	-0.5	-0.6
Total payments	**-0.6**	**-0.6**
Public debt interest	0.0	0.2
Underlying cash balance impact(a)	**3.1**	**3.8**

(a) Estimated impacts fall within the 70 per cent confidence intervals for years 2014-15 and 2015-16, as shown in Appendix B Charts B3 to B5.

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, unemployment benefits and other allowances) is higher, reflecting a higher number of unemployment benefit recipients (as higher labour force participation increases both employment and the number unemployed) and also 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.

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

Sensitivity of the balance sheet to economic and fiscal risks

Consistent with the medium-term fiscal strategy, this Budget places emphasis on the strength of the Government's balance sheet. This section supplements the analysis of Australia's fiscal sustainability in Statement 3, and discusses the resilience of our balance sheet to adverse economic and fiscal shocks. The baseline case and the downside scenario are analysed:

- Baseline case: discussion of how current economic and fiscal risks may impact the balance sheet.

- Downside scenario: discussion of how significant but remote economic and fiscal downside risks may impact the balance sheet.

A strong balance sheet provides the Government with the flexibility to respond to adverse fiscal and economic risks, and is an indicator of fiscal sustainability. Fiscal risks refer to developments or specific events that are unpredictable in both timing and magnitude, which result in a significant increase in Government payments. This includes events such as emergency defence or foreign aid requirements and natural disasters. These payments generally result in an erosion of existing budget surpluses and/or higher government borrowings. Economic risks refer to economic shocks, such as a financial crisis, that result in a fall in GDP, employment, wages and therefore tax receipts, and increased payments for example for unemployment benefits. These effects generally result in lower receipts and higher payments, eroding surpluses or widening deficits and resulting in higher levels of net debt.

This analysis focuses on the impact of large risks eventuating and the impact to the balance sheet and fiscal sustainability in broad terms.

Baseline case

The estimates contained in the Budget are based on forecasts of the economic and fiscal outlook. Risks that have a probable chance of materialising are already taken into account in the Financial Statements. Australia holds AAA credit ratings from all three rating agencies, and the balance sheet is strong given current economic conditions.

There are a number of existing contingent liabilities and assets that are not included in the Financial Statements on the basis that they are currently assessed as unlikely to occur, but under certain and potentially extreme circumstances they could crystallise in the future. These contingencies include loan guarantees, warranties, indemnities, uncalled capital and letters of comfort, and are outlined in *Statement 8: Statement of Risks*.

Downside scenario

If fiscal or economic risks come to fruition, the strength of the balance sheet is called upon as it will need to respond to the initial shock to the economy or the budget. In a large economic shock, the Government will likely be pressed to intervene in a riskier environment by drawing down assets, issuing more debt and/or providing guarantees to give certainty to the market. This poses a challenge to the Government and tests the ability and strength of the balance sheet to support economic activity and so ameliorate the impact of the shock on businesses and households.

A higher level of payments necessitating higher borrowings

When economic conditions deteriorate the budget position can decline significantly as receipts fall and payments increase. This can lead to an erosion of existing budget surpluses and/or an increase in borrowings to fund these additional payments. The section below discusses how a number of fiscal and economic risks increase payments if they materialise.

A deterioration in economic conditions and economic activity is usually signalled by a fall in demand for labour and for goods and services. Eventually excess supply in product and labour markets will generate falls in wages and domestic prices, and the quantity of labour employed and goods and services exchanged. The decline in wages and employment will lead to a fall in personal income tax receipts. Weak labour market conditions would also lead to lower household consumption and falls in GST receipts. The fall in nominal GDP (driven by falls in domestic prices and the level of goods and services exchanged) reduces revenue raised from company tax. At the same time a higher unemployment rate would lead to increased expenditure on income and other Government support payments. To fund this deterioration in the Government's fiscal position, assets would need to be run down or borrowings would need to increase through the issuance of more Commonwealth Government Securities (CGS).

During an economic downturn, increases in payments could be funded by an increase in CGS issuance thereby increasing the liability. This would lead to higher interest payments until the Government begins to repay its debt.

A weakened economic environment also increases the likelihood of contingent liabilities (for example, guarantees) crystallising or defaults on loans, resulting in higher liabilities and an increase in payments.

Statement 8 provides further detail on contingent liabilities, contingent assets and other fiscal risks. Information on contingent assets and liabilities is also provided in the Australian Government's annual consolidated financial statements and in the annual financial reports of departments and non-budget entities.

Some of the Government's large guarantees are those introduced during the Global Financial Crisis. As described below, even a large deterioration in conditions would be unlikely to trigger some of these guarantees.

The Guarantee Scheme for Large Deposits and Wholesale Funding is applicable to certain liabilities covered by the guarantee. The liabilities currently have a value of around $25 billion. Government expenditure would only arise 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 Financial Claims Scheme provides depositors of authorised deposit taking institutions (ADIs) and policyholders of general insurers with timely access to their funds in the event of a financial institution failure. In relation to ADIs payments are capped at $250,000 per account holder per ADI, and a mechanism exists to make payments to eligible beneficiaries with a claim against a failed insurer. ADI deposits eligible for coverage under the scheme are estimated to be approximately $722.8 billion at 31 December 2013. Initial amounts available to meet payments and administer the scheme are $20.1 billion per institution. In the unlikely event of a failure, any payments made under the Financial Claims Scheme would be recovered through a liquidation of the failed institution. Any shortfalls would be recovered through a levy on the industry.

The IMF has analysed and tested the financial strength of Australian banks in its Financial Stability Assessment Programme Report 2012. The report found that Australia's financial system is sound, resilient, and well-managed, and that the major banks are conservatively run, well capitalised and profitable, and they are likely to withstand severe shocks. The IMF concluded that if necessary, given Australia's modest public debt, there is space for both monetary and fiscal policy to respond to a significant shock.[1]

The guarantee of State and Territory Borrowings, also introduced in response to the considerable financial market turbulence in the Global Financial Crisis, only applies to outstanding securities for New South Wales and Queensland covered by the guarantee before it closed on 31 December 2010. As at 31 March 2014, the face value of guaranteed securities was $19.0 billion. While the risk of default of either government is remote, if a significant economic event were to cause a default by either or both governments, the Commonwealth is likely to be able to recover its guarantee payments through a claim on the relevant State or Territory at a future date.

In addition to payments resulting from shocks to the economy, natural disasters are highly unpredictable and are outside the Government's control. They can pose devastating consequences on the Australian community and result in large unexpected increases in payments for disaster aid and recovery funding. While the Government's current balance sheet strength is able to provide capacity for further borrowings without putting at risk existing spending programmes and Australia's debt sustainability, if a natural disaster occurs in conjunction with a significant economic downturn, the burden on the Government's finances would put further pressure on the budget.

1 IMF's Australia: Financial Stability Assessment Programme Report, February 2012.

A fall in the strength of the balance sheet

In addition to an increase in borrowings, certain balance sheet items are required to be recorded at market value and the market valuation of these items make them susceptible to significant economic downturns as prices fluctuate. As a result market movements may have temporary impacts on the strength of the balance sheet.

The Higher Education Loan Program (HELP) is the largest asset on the balance sheet, in terms of individual programs, and represents the net present value of expected loan repayments and therefore future sources of funds. The HELP asset is estimated to be around $25.2 billion at 30 June 2014 and is projected to grow to around $30.0 billion in 2014-15 and $51.4 billion by the end of the forward estimates. This growth is largely a result of improved access to student loans and students paying a greater share of the cost of their education. A slow-down in wages growth as a result of a deterioration of economic conditions may lead to slower loan repayments meaning the government cannot repay its debt as quickly.

The investments of the Future Fund are also susceptible to market changes. The Future Fund's investments are estimated to be around $97.6 billion at 31 March 2014. However, if the Future Fund were to experience negative returns on its investments due to an external financial market shock, its value could fall substantially.

The CGS liability is estimated to be $346.6 billion as at 30 June 2014. Movements in interest rates impact upon the market value of the Government's CGS liability. For example, lower interest rates that may be used to stimulate the economy will contribute to a higher market value of the liability. This increases the market value of the CGS liability.

Appendix B: Confidence Intervals Around the Economic and Fiscal Forecasts

Estimates of economic and fiscal variables over the forward estimates period are subject to inherent uncertainties, which generally tend to increase as the forecast horizon lengthens. Confidence intervals quantifying estimates of uncertainty around the key 2014-15 Budget forecasts have been constructed using a set of historical forecasting errors based on forecasts made since 1998 (where errors are defined by the difference between the forecasts and actual outcomes). These confidence intervals highlight that there is a range of plausible alternative outcomes around any given point estimate and provide a guide to the degree of uncertainty around these forecasts, typically spanning a wide range of outcomes.[1] As part of continuing to improve its forecasting processes, Treasury is implementing the recommendations of the 2012 *Review of Treasury Macroeconomic and Revenue Forecasting*.

Measures of Uncertainty Around Economic Forecasts

For real and nominal GDP forecasts, confidence intervals could be presented around forecasts of annual growth rates, average annualised growth rates or cumulative growth rates. While all three measures have merit, a key role of GDP forecasts is as an input for producing revenue and expenses forecasts. For this purpose, the average annualised GDP growth rate or cumulative GDP growth rate is the more relevant summary statistic, since the level of GDP depends on cumulative growth over time. The average annualised growth rate is reported as it captures the effects of cumulative growth, while still giving a sense of what the annual growth rate would be.

Chart B1 suggests that the average annualised growth rate in real GDP in the two years to 2014-15 is expected to be 2½ per cent, with the 70 per cent confidence interval ranging from 1¾ to 3½ per cent. In other words, if forecast errors are similar to those in the past 15 years, there is a 70 per cent probability that the growth rate will lie in this range.

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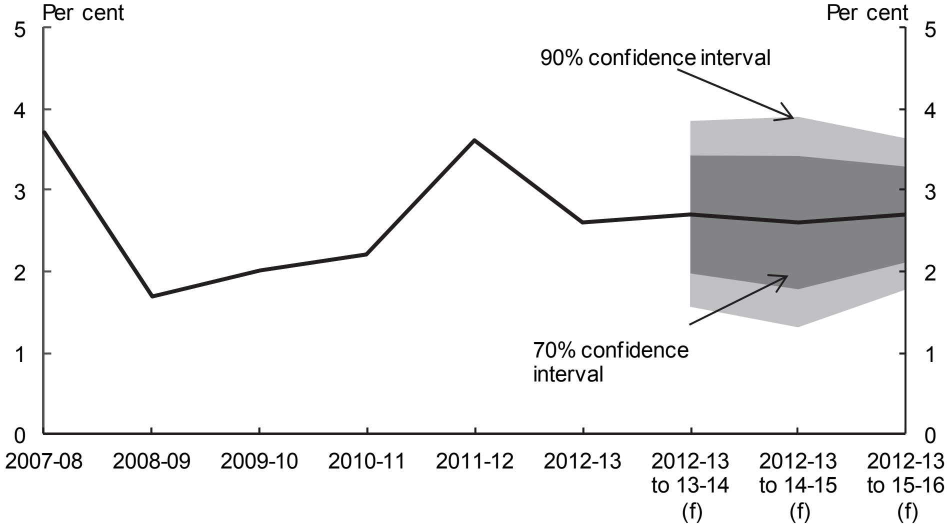
1 The 2012 *Review of Treasury Macroeconomic and Revenue Forecasting* found that the official macroeconomic and tax revenue forecasting performance is comparable with or better than that of other forecasters, suggesting that the uncertainty around the forecasts is similar to or smaller than those of other forecasters.

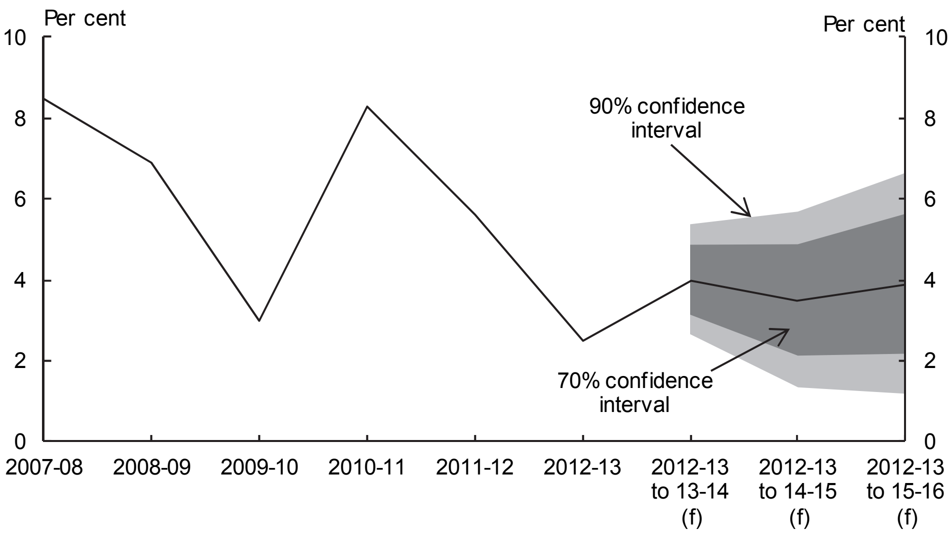
Chart B1: Confidence intervals around real GDP growth rate forecasts



Note: The central line shows the outcomes and the 2014-15 Budget forecasts. Annual growth rates are reported for the outcomes. Average annualised growth rates from 2012–13 are reported for 2013–14 onwards. (f) are forecasts. Confidence intervals are based on the root mean square errors (RMSEs) of Budget forecasts from 1998-99 onwards, with outcomes based on December quarter 2013 National Accounts data.
Source: ABS cat. no. 5206.0, Budget papers and Treasury.

The uncertainty around nominal GDP is larger, reflecting uncertainty about the outlook for real GDP and uncertainty about the outlook for prices or the GDP deflator. Chart B2 suggests that the average annualised growth rate in nominal GDP in the two years to 2014-15 is expected to be 3½ per cent, with the 70 per cent confidence interval ranging from 2 to 5 per cent.

Chart B2: Confidence intervals around nominal GDP growth rate forecasts



Note: See note to Chart B1.
Source: ABS cat. no. 5206.0, Budget papers and Treasury.

MEASURES OF UNCERTAINTY AROUND FISCAL FORECASTS

The following charts illustrate measures of uncertainty around the key 2014-15 Budget fiscal forecasts. These charts show confidence intervals around the forecasts for receipts (excluding GST and including Future Fund earnings), payments (excluding GST) and the underlying cash balance (which excludes Future Fund earnings). These confidence intervals have been calculated by comparing the historical forecasts of the relevant fiscal variable with the outcome, expressed as a proportion of the GDP outcome in the relevant year.[2]

Impacts of future policy decisions are beyond the scope of fiscal forecasts. To account for this, confidence intervals constructed around the fiscal variables exclude historical variations caused by policy decisions. These intervals take into account errors caused by parameter and other variations in isolation, but include the public debt interest impact of policy decisions.[3]

It should be noted that excluding historical variations due to policy decisions does not exclude cases that are classified in budget documentation as parameter and other variations, but have more in common with decisions of government. For example, specific decisions to re-profile spending due to changes in timing of projects are captured for reporting purposes as parameter and other variations. Similarly, new and often substantial spending decisions to provide assistance for the impacts of natural disasters are covered under the *Natural Disaster Relief and Recovery Arrangements* and are captured for budget reporting purposes as parameter and other variations. The treatment of these spending decisions contributes to the size of the confidence intervals around payments. Further uncertainty from this source can be expected over the forecast period as provisions for impacts of future natural disasters are not included in estimates beyond the budget year.

GST was not reported as a Commonwealth tax in budget documents prior to the 2008-09 Budget. As a result, GST data have been removed from historical receipts and payments data to abstract from any error associated with this change in accounting treatment.

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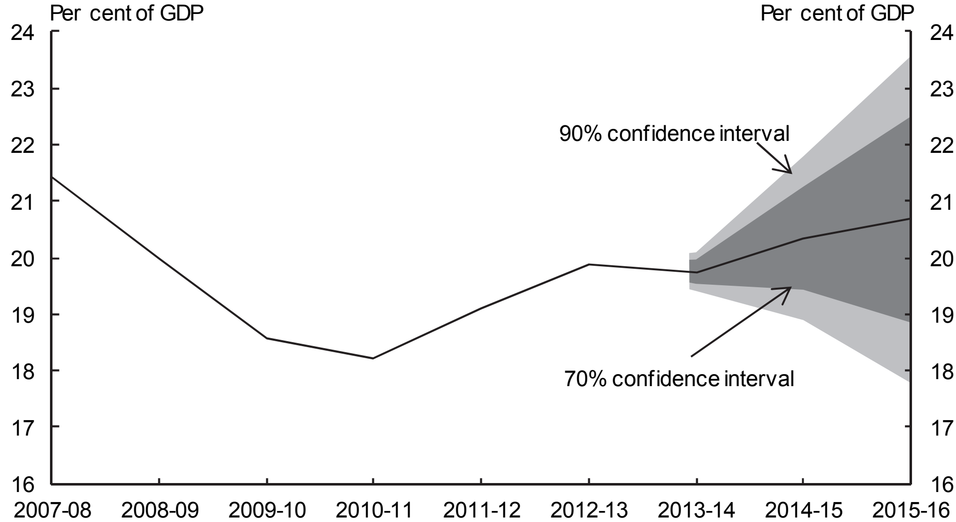
2 The confidence intervals around the fiscal forecasts are based on GDP outcomes, rather than GDP forecasts, as discussed in Treasury Working Paper 2013-04: *Estimates of uncertainty around budget forecasts* which found that forecast errors for GDP and receipts (in particular) are highly correlated.

3 The impacts of past policy decisions on historical public debt interest through time cannot be readily identified or estimated. For this reason, no adjustment has been made to exclude these impacts from the analysis.

Receipts

Chart B3: Confidence intervals around receipts forecasts (excluding GST)

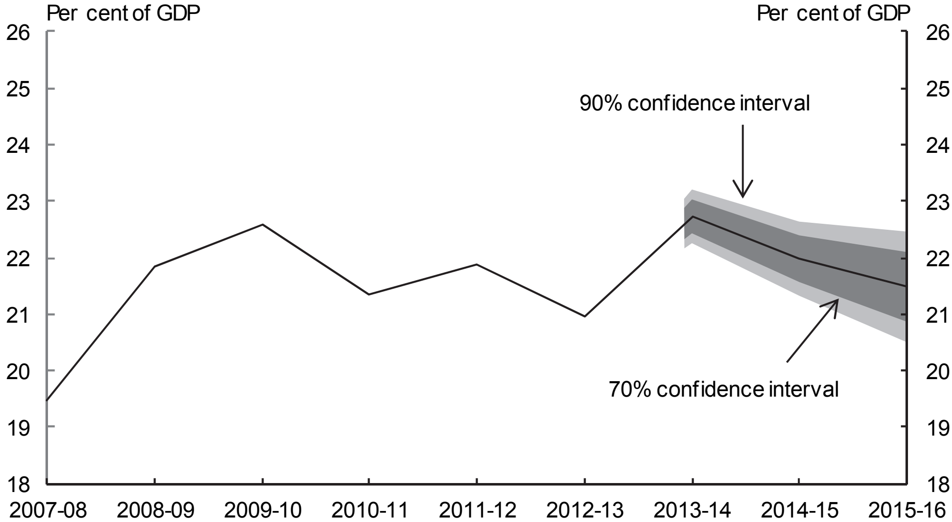


Note: The central line shows the outcomes and 2014-15 Budget point estimate forecasts. Confidence intervals use RMSEs for Budget forecasts from the 1998-99 Budget onwards.
Source: Budget papers and Treasury.

Chart B3 suggests that there is notable uncertainty around receipts forecasts and that this uncertainty increases over the estimates period. It suggests that in 2014-15, the width of the 70 per cent confidence interval for the 2014-15 Budget receipts forecast (excluding GST) is approximately 1.8 per cent of GDP ($30 billion) and the 90 per cent confidence interval is approximately 2.9 per cent of GDP ($45 billion).

Payments

Chart B4: Confidence intervals around payments forecasts (excluding GST)

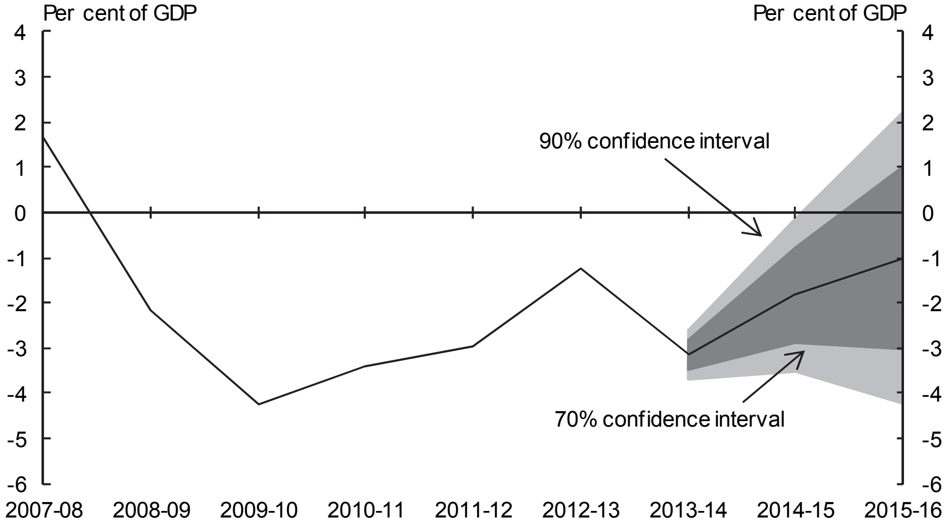


Note: See note to Chart B3.
Source: Budget papers and Treasury.

Chart B4 suggests that there is moderate uncertainty around payments forecasts and that this uncertainty exhibits apparent but contained growth over the estimates period. It suggests that in 2014-15, the width of the 70 per cent confidence interval for the 2014-15 Budget payments forecast (excluding GST) is approximately 0.8 per cent of GDP ($15 billion) and the 90 per cent confidence interval is approximately 1.3 per cent of GDP ($20 billion).

Underlying cash balance

Chart B5: Confidence intervals around the underlying cash balance forecasts



Note: See note to Chart B3.
Source: Budget papers and Treasury.

Chart B5 suggests that there is notable uncertainty around the underlying cash balance forecasts and that this uncertainty exhibits pronounced growth over the estimates period. It suggests that in 2014-15, the width of the 70 per cent confidence interval for the 2014-15 Budget underlying cash balance forecast is approximately 2.2 per cent of GDP ($35 billion) and the 90 per cent confidence interval is approximately 3.4 per cent of GDP ($55 billion).

Further details on the methodology used to construct confidence intervals around the economic and fiscal forecasts can be found in Treasury Working Paper 2013-04: *Estimates of uncertainty around budget forecasts* available online at: http://www.treasury.gov.au/PublicationsAndMedia/Publications/2013/Estimates-of-uncertainty-around-budget-forecasts.

STATEMENT 4: SUSTAINING STRONG GROWTH IN LIVING STANDARDS

This statement discusses factors that will affect income growth and living standards over the medium term.

CONTENTS

STATEMENT 4: SUSTAINING STRONG GROWTH IN LIVING STANDARDS

INTRODUCTION

Australians have high living standards relative to the rest of the world, and these have been boosted by rapid growth in incomes over the past two decades. This income growth has been shared broadly across the community.

To a large extent, this growth in national average incomes reflects the pay offs from economic reforms undertaken previously that increased the economy's productive potential, opened up access to overseas markets and capital, and made businesses more competitive.

Australia now faces a number of challenges that are likely to slow growth in incomes in the future. Australia's population is ageing, which means that we will continue to see a lower proportion of our population in the workforce. In addition, Australia's terms of trade have fallen from their historic highs and are projected to continue to fall over the next few years.

For incomes to grow in the future, we will have to pursue new growth opportunities and use our resources more productively. Ultimately, it is the efforts, creativity and risk-taking of businesses, investors and workers together that create new and better goods and services, and more efficient ways of doing things. This then creates wealth, jobs and opportunities. Government policies and decisions influence how well markets operate and incentives for work and enterprise, and can have a profound impact on current and future rates of economic growth.

There is significant scope for structural reforms to improve the productive potential of the Australian economy. At the heart of the changes required is a mindset and culture that rewards individuals' and firms' hard work and initiative. This change in mindset needs to be shared by all sectors of society, including individuals, business and government. On the Government's part, this requires changes to policy settings to encourage people to work and to innovate, and which promote greater openness and competition in markets. This Budget makes a significant down payment on these reforms.

This Budget also begins the task of restoring discipline to public spending while also re-focusing spending to areas that build the economy's productive capabilities. Importantly, this Budget will help the economy to transition from the end of the resources investment boom, including by facilitating targeted infrastructure investment.

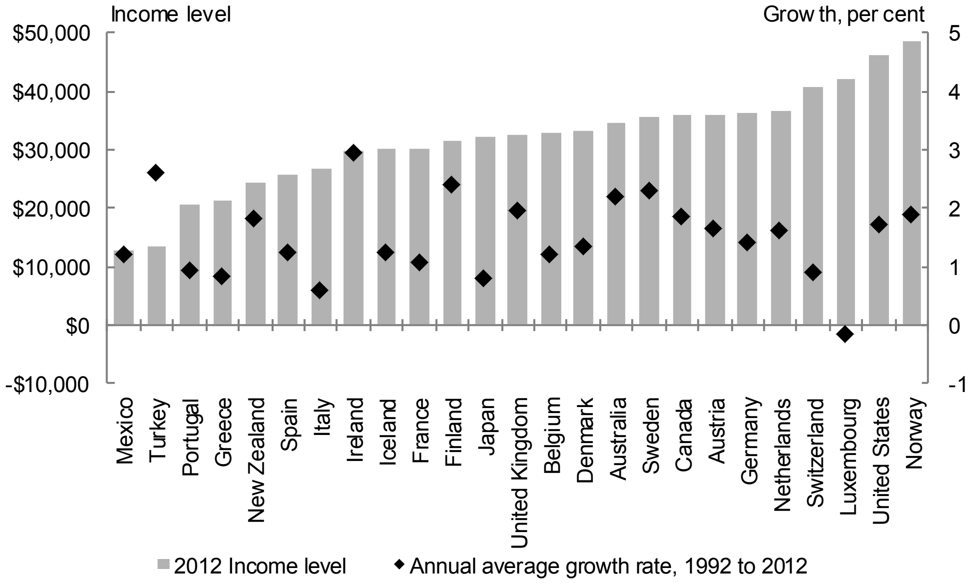
LIVING STANDARDS IN AUSTRALIA

A major goal of policy is to improve the level and sustainability of living standards of all Australians.

Income is one of the most important determinants of living standards. Increasing real incomes allow people the capacity to buy more goods and services, and save and invest, as well as more freedom to choose how to spend their time. Income growth also means that potentially more tax revenue is available to provide government services and income support.

Australians' incomes per person are now relatively high in comparison to most Organisation for Economic Cooperation and Development (OECD) economies (Chart 1). Average income levels per person were around $34,500 in 2012. In the past two decades, average incomes have grown in dollar terms by around $12,000 (after discounting for the effects of inflation), and at annual rates that are among the fastest in the OECD.

Chart 1: Comparison of 2012 national income per capita



Note: Annual average growth refers to the growth rate in income, measured in 2005 international dollars weighted by purchasing power, from 1992 to 2012. Data for New Zealand are from 1991 to 2011.
Source: World Bank.

Australia's income growth has been broadly shared across the Australian population, with households across the income distribution experiencing broadly similar rates of income growth (after taxes and transfers) over the past two decades.

This growth in incomes has contributed to higher living standards over time, and relative to other countries.

Indicators of Australians' life expectancy, education levels and the quality of our urban environment all improved over the past decade.[1] International comparisons of living standards indicate that Australians have among the highest living standards in the world, and that these high standards of living are shared relatively equitably across the community in comparison to other advanced countries.[2]

Our high standards of living did not come about by accident.

In significant part, they reflect a range of reforms taken by governments, particularly during the 1980s, 1990s and early 2000s that led to improvements in the economy's productive capacity and the competitiveness of businesses, as well as greater openness to overseas markets and capital.

It also reflects behavioural responses to those policy changes that saw employers and employees having greater flexibility in negotiating how income gains are shared, and reforms that have supported higher, and better skilled, participation in the workforce.

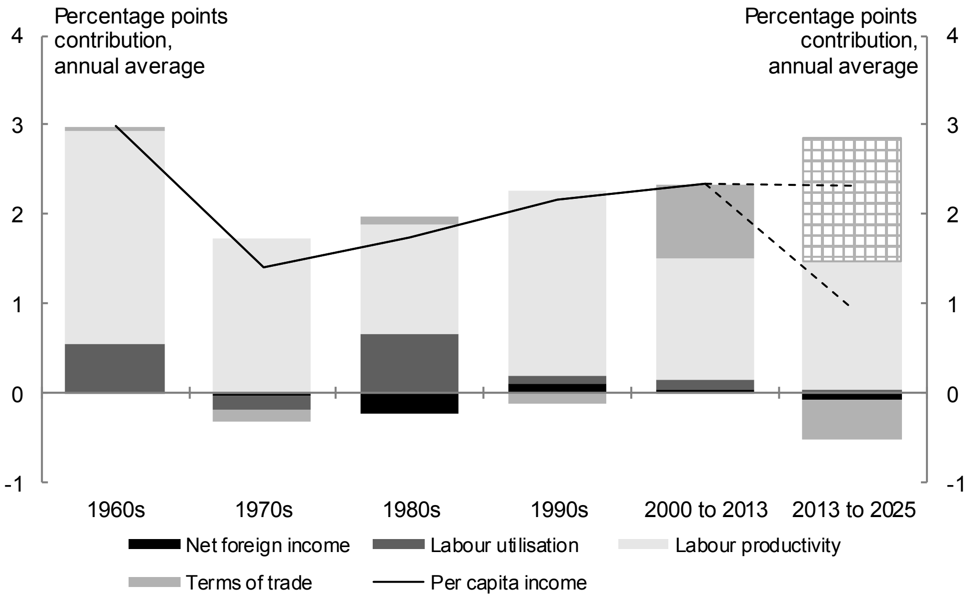
DRIVERS OF GROWTH IN INCOMES

The main sources of income growth nationally are growth in productivity, changes in the terms of trade, changes in output from increased labour utilisation, and growth in net foreign income.

Chart 2 shows the sources of growth in real national income per person over the past half century. It also shows two scenarios for income growth in the future given the likely impacts of population ageing and the projected falls in the terms of trade.

1 ABS, 2013.
2 OECD, 2013. Australia has ranked second (after Norway) on the United Nations Human Development Index since 2000. The ranking remains second (again, after Norway) when the measure is adjusted for inequality, whereas the United States slips 13 places to 16th (United Nations, 2013).

Chart 2: Sources of growth in national income per capita



Note: Contributions to income growth in the period 2013 to 2025 are consistent with the forecasts and projections detailed in Budget Statement 2. The hatched area represents the additional labour productivity growth required to achieve long run average growth in real gross national income per capita.
Source: ABS 5204.0 and Treasury.

Productivity has consistently been the most significant source of income growth. However, over the past decade or so, it has been the dramatic rise in the terms of trade which has maintained growth in gross national income as productivity growth has waned. Over the next decade, the decline in the terms of trade is expected to detract from growth in incomes. This negative impact will be compounded by a declining contribution from labour utilisation as the population ages.

For annual incomes to grow at their historical average of 2.3 per cent over the period to 2025, annual labour productivity growth would need to increase to around 3 per cent per year to counteract the effects of population ageing and a falling terms of trade. This is well in excess of what has been achieved in the past 50 years, and more than double what was achieved in the past decade.

If labour productivity grows at its long-run average of around 1.5 per cent per year over the medium-term, per capita incomes would grow on average by about 1 per cent per year — or less than half of what Australians have become used to over the past three decades. This difference in growth rates translates to a difference in real per capita incomes of $13,000 per year by 2025 ($84,000 under the high growth scenario versus $71,000 under the low growth scenario) — or around 20 per cent of today's average income of $63,500. The drivers of income growth are discussed further below.

Productivity growth

Growth in productivity means that more or better quality goods and services are generated for a given level of resources.

What happened in the 1990s?

Labour productivity grew strongly in the 1990s, at an annual average rate of 2.1 per cent, well above the long-run average of 1.5 per cent.[3] Productivity accounted for about 96 per cent of annual income growth in that decade, in comparison to an average of 90 per cent of growth in incomes in the past four decades.

The increase in productivity growth rates seen in the 1990s was the payoff from the significant policy reforms of that decade and in the 1980s. These included removing industry protections and opening up the economy to overseas trade; reducing controls over labour, capital and product markets; reforms to improve the efficiency of markets providing essential services, such as electricity; and taxation reforms. Reforms were also made to macroeconomic policy settings, including letting market forces determine the exchange rate, introducing the independent setting of interest rates and placing fiscal policy in a medium term framework.

The reforms created more competitive markets, which encouraged businesses to become more efficient and innovative. The reforms also encouraged businesses to adopt and exploit new and improved technologies developed overseas, including those embedded in new capital, such as information and communications technologies. Further, they provided greater flexibility in the use of resources and allowed relative prices of goods and services to reflect the balance of supply and demand more accurately, improving overall resource allocation and returns on investments in both physical and human capital.

The productivity and price changes in key infrastructure sectors, such as energy and water, have been estimated to have increased gross domestic product (GDP) by 2.5 per cent above what it would otherwise have been over the 1990s.[4] The benefits of competition reforms were widely spread across the community, including rural and regional Australia.[5]

These policy reforms helped halt a long-term decline in Australia's income growth rates relative to other countries. Without these reforms, it is likely that Australians' living standards would be significantly lower than they are today.

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3 Labour productivity is a measure of output produced per unit of labour, usually per hour worked.

4 Productivity Commission, 2005.

5 The only region to experience a decline in regional output over the 1990s was the 'Great Southern' area of Western Australia, which includes Albany, Denmark and Katanning. This region experienced a slight fall of 0.74 per cent. Productivity Commission, 2005.

What has happened since the early 2000s?

Labour productivity growth has slowed since the early 2000s, contributing only around 60 per cent of the growth in average incomes since 2000. However, incomes have grown at similar rates over the past 10 years to that recorded in the previous decade due mainly to a significant contribution from the rise in the terms of trade.

The slowdown in productivity growth since the early 2000s has partly reflected the very high investment activity in the resources and utilities sectors.[6] This investment of capital and labour has long lead times before increased output comes on line. Productivity in manufacturing has also been poor at an aggregate level. Further, cyclical factors may also have played a role since the global financial crisis.[7]

Still, these factors do not explain fully the breadth and magnitude of the slowdown in Australia's productivity growth rates, since the majority of industries have seen a slowing. This suggests that more fundamental factors are at play.

Part of the slowdown may reflect the fading impact of past reforms. Also, there have been fewer significant policy reforms since the early 2000s. Strong income growth, low unemployment, and high rates of profitability through the 2000s may have reduced the incentive for major reform by governments and for businesses to become more competitive.[8] There is also evidence that policy requirements have constrained how inputs are used in some sectors and increased regulatory burdens, thereby detracting from measured productivity growth.[9]

There is little evidence that slower productivity growth has been due to inadequate investment in skills, education and innovation more broadly.[10]

Australia has not been alone among advanced economies in experiencing slower productivity growth over the 2000s, which suggests that the rate of growth in

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6 The resources sector comprises the mining and metals manufacturing industries as defined by the ABS.

7 Productivity performance fluctuates with economic and business cycles. During downturns, businesses often lower their utilisation of labour and capital, rather than laying them off. This avoids the costs involved in re-employing them when times improve, although it can temporarily reduce productivity. Demand conditions in the non-resources sectors of the economy have generally been below their long-run trends since the onset of the global financial crisis in 2008.

8 See, for example, Eslake, 2011 and Dolman, 2009.

9 Productivity Commission, 2013, IPART, 2010, Eslake, 2011. One prominent example is new environmental and water and electricity service standards, which have required many utility services to invest in higher cost production technologies.

10 Indicators of innovative activity for Australia generally point to higher rates of innovation in the 2000s than in the 1990s (Connolly & Gustafsson, 2013, and Carmody, 2013). When adjusted for education and work experience (a proxy for human capital), estimates of labour inputs similarly show strong increases across the 2000s.

technological advance — which expands production possibilities — may have been slower than in previous decades. This is discussed further in the section on the prospects for long term productivity growth below.

The impact of the resources, utilities and manufacturing sectors

The resources sector has seen significant increases in capacity that have not yet been matched by growth in output. The rate of productivity growth in the resources sector is likely to improve as this additional capacity is used for production and exports.[11]

In addition, high prices for commodities have made activities with higher unit costs, such as the extraction of deeper ores and lower yielding resources, financially attractive. The mining of marginal resources is likely to decline as prices for resource commodities decline — although to the extent that fewer high-value deposits are discovered, the downward pressure on productivity growth may continue into the future.[12]

The resources sector is expected to experience a very strong turnaround in labour productivity over the next few years. After falling a cumulative 19 per cent over the past five years, labour productivity is projected to return soon to positive rates of growth as output from the resources sector rises strongly. The resources sector generates around 16 per cent of Australia's production and is the highest productivity sector in the economy.[13] Therefore, this productivity turnaround will have a sizable impact on national productivity growth.[14]

This will not lead to a commensurate increase in national average incomes as a large part of the resource investment boom (around four-fifths) has been funded from foreign sources.[15] Australians will receive returns from higher productivity growth that reflect the level of domestic investment in the sector, as well as through employment income.

Productivity levels in the utilities sector should also increase as utilisation of new capacity grows, for example, with population growth. The negative impact of other temporary factors, such as drought, which decreased water output, and expenditure to

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11 Bureau Resources and Energy Economics, 2014.

12 Productivity Commission, 2014.

13 Methodology for constructing resources sector data as in Gruen, 2011. Sectoral output share based on real gross value added.

14 Were labour productivity in the resources sector simply to stop falling, it would raise aggregate labour productivity growth by 0.6 per cent per annum relative to the past five years. Given the sharp increases in output in prospect in the next few years detailed in Budget Statement 2, the sector's contribution to aggregate productivity could be significantly larger than this.

15 The estimate of foreign investment funding in the sector is from Arsov, I, Shanahan, B and Williams, T, 2013.

refurbish or replace assets, for example ageing electricity infrastructure, is also likely to diminish in time.

However, the utilities sector has incurred significant expenditure in recent years in response to policy decisions, including with respect to higher service quality, reliability, environmental and security standards.[16] This could represent a permanent shift to a lower measured productivity level, although these decisions may still contribute to higher and more sustainable living standards to the extent that they take a form of investment akin to insurance.

The manufacturing sector saw a marked slowdown in productivity growth over the mid-2000s and, given its size, was a major driver of the national productivity slowdown over this period.[17] The diversity of this sector makes it difficult to infer broad causes of the slowdown in manufacturing productivity, but long-run trends in the industry show sustained falls in input growth, with larger falls in output growth.

The specific circumstances of these sectors do not explain the aggregate slowing of productivity growth. After removing the effects of these sectors, the slowdown in productivity is still seen, and is broad-based across industries. This suggests that economy-wide factors are at play and there is a need for an economy-wide response.

Chart 3 shows Australia's growth in multi-factor productivity (MFP), which has been extremely weak, on average, over the past decade. In contrast to labour productivity, MFP is a more comprehensive measure of productivity, as it captures how efficiently producers use both the key inputs of labour and capital.[18] Poor MFP performance over the past decade contrasts with solid growth on average over the preceding 30 years.

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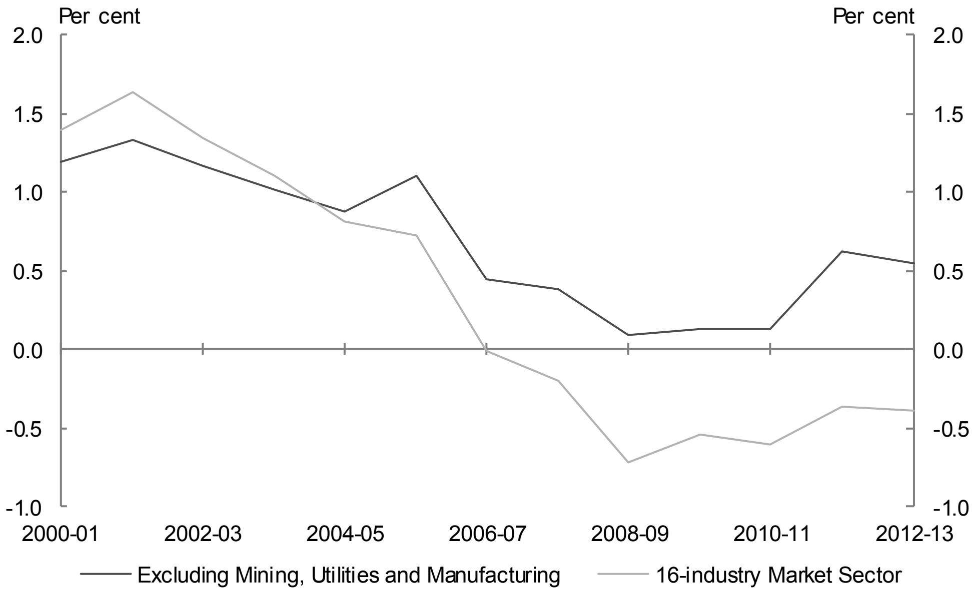
16 These include, for example, the construction of desalination plants to ensure water security and asset enhancements to meet higher electricity reliability, water quality and dam safety standards.

17 Productivity Commission, 2014.

18 Labour productivity (output produced per unit of labour input) ascribes all the value added from resources used in production to labour. As such, it is a more limited measure of the efficiency with which firms use their resources than MFP (output produced per unit of combined inputs of labour and capital).

Chart 3: Multifactor productivity growth



Note: Data are 5-year period-end moving averages.
Source: ABS 5260.0.55.002, unpublished ABS data and Treasury calculations.

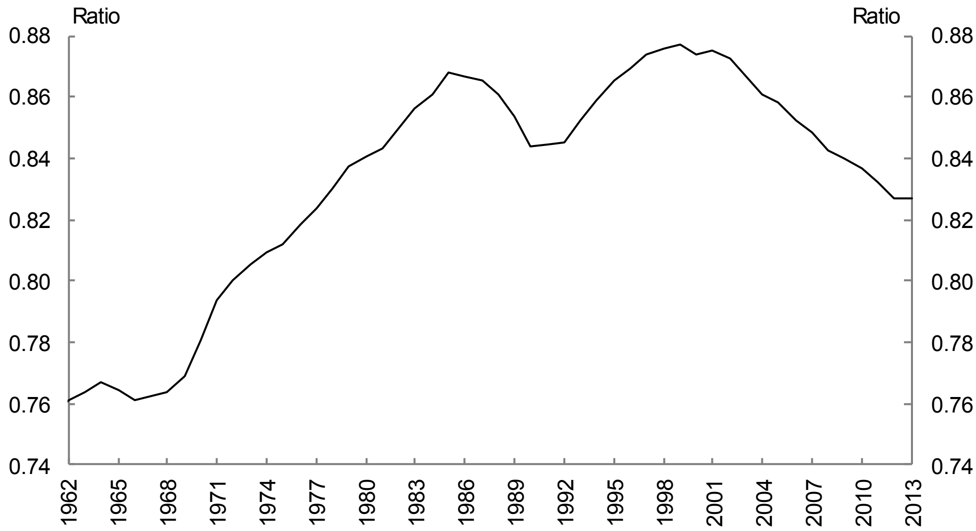
What are the prospects for productivity growth in the long term?

The United States (US) is currently the most technologically advanced country. In general, the US can be said to represent the highest levels of productivity achievable from the use of existing resources given current knowledge and technologies.

Chart 4 shows that Australia's productivity levels relative to the US have trended downwards from around 87 per cent at the turn of the century to around 83 per cent in 2013.

US labour productivity growth has fallen since 2002 but Australia's productivity growth has deteriorated more markedly.

Chart 4: Australia's labour productivity relative to the United States



Note: Data are a 5-year period-end moving average.
Source: The Conference Board Total Economy Database and Treasury.

A large part of the productivity gap between Australia and the US is attributable to differences in historical and geographic circumstances. Australia's large and sparsely populated land mass and geographic distance from key global centres of trade limit opportunities to take advantage of specialisation and economies of scale. Previous work undertaken in Treasury suggests that these factors could explain around 40 per cent of the observed gap in productivity.[19]

While some Australian industries enjoy higher or similar productivity relative to the US (such as resources), other industries lag behind, such as utilities, manufacturing, and wholesale and retail trade. This indicates that there may be further scope to 'catch up' to best practice, particularly within industries where Australia's productivity is relatively low.

Longer term, Australia's prospects for productivity growth will be affected by advances in technology, which will create new possibilities for production. As a net importer of technology and innovations, Australia's ability to absorb advances and convert them into new business opportunities will be particularly important.

Is the frontier expanding more slowly?

As noted above, Australia has not been alone among advanced economies in experiencing slower productivity growth over the 2000s. This suggests that the rate of expansion of the global technological frontier may have been slower than in previous decades. There is little consensus on the reasons for this apparent slowdown.

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19 Davis & Rahman, 2006.

There are also differing views as to the scope in future for major productivity improvements. Some suggest that the set of innovations seen over the past 250 years may have been a unique episode in human history.[20]

This suggests future innovations will be less productivity enhancing, and income growth may be lower in future. If this is true, *global* living standards can increase as less developed countries get closer to the frontier, but those at or near the frontier may see a slowdown in income growth.

However, others note that it is not possible to predict when technological change will occur, or necessarily how and when innovations will change businesses processes, and what we produce.[21]

The analyses of slowdowns have generally focused on advanced economies. With the growth of emerging economies, the sources of global economic growth and creative enterprise will expand. This may well boost the stock of 'knowledge workers' contributing to significant advances in the global technological frontier.

To the extent that Australia is geographically closer to new sources of technological advance, there should be greater scope to 'catch up' to, and move with, best practice.

The impact of structural change

Although the resources sector experienced negative productivity growth in recent years, it maintained the highest level of labour productivity. Consequently, over the past decade, the movement of labour to the resources sector has contributed significantly to aggregate labour productivity growth.

Over the decade ahead, changing industry structure is projected to detract around 0.3 percentage points from the 30-year average labour productivity growth rate of 1.5 per cent per year.[22] The expansion of low productivity growth sectors, such as business services, aged care and health, as well as relative declines in high productivity growth sectors, such as financial services, is projected to reduce growth in aggregate labour productivity.[23]

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20 For example, Gordon, 2012.

21 As noted by Syverson, 2013, it may simply take time for innovations, such as information and communications technologies, to result in significant growth in productivity. Brynjolfsson and McAfee, 2011, further suggest there is significant growth potential stemming from advances in computing and digital technologies that are yet to be seen.

22 Treasury calculations based on the Monash Multi-Regional Forecasting model. This finding is consistent with a recent study by the Productivity Commission, (2012).

23 Productivity Commission, 2013a. It is particularly difficult to measure productivity in the services sectors. Many public services, for example, are not priced or have prices that do not reflect their full costs, and improvements in the quality of services, such as in the areas of

Australia's services sectors are expected to become a larger part of the economy. These sectors currently account for more than three-quarters of total employment and are expected to grow further to meet growth in domestic and international demand.[24] Services sectors tend to be lower-productivity as they are more labour-intensive.

Like Australia, a number of advanced economies are becoming more services-oriented as lower-cost developing economies compete for export share in higher productivity manufacturing-oriented sectors.[25]

The negative impact on aggregate productivity of a shift to labour-intensive service industries — many of them provided or funded by governments — and their increasing prominence as a share of the economy highlights the critical importance of improving productivity in these industries.

Changes in the terms of trade

Over the past decade or so, the second most significant driver of income growth has been income derived from the largest rise in the terms of trade in our history. The economic transformation of China and other emerging market economies drove global prices of Australia's mineral commodities, and the terms of trade, to record highs. This enabled strong wage growth in resources-related sectors, while a higher exchange rate increased the purchasing power of households across the economy. This added 0.8 percentage points a year to growth in average incomes, boosting real incomes per person by about $6,000 since 2000.

Australia's terms of trade peaked in 2011, and has been declining ever since. This decline will continue over coming years as the prices for our key export commodities fall in response to expanding global supply capacity.[26] The falling terms of trade has already begun to detract from growth in national income, and will continue to do so over the medium term.

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health and ageing, are difficult to quantify. The true values of these services are, therefore, often not reflected in output measures.

24 The international dimension represents predominantly the rapidly increasing membership of the Asian middle class with their rising demand for a broad range of services, including tourism, education, aged care and health, entertainment, financial and professional services. Employment in the Australian services sectors is projected to grow by around 30 per cent to 2030. Gruen, 2014.

25 Spence & Hlatshwayo, 2012.

26 Parkinson, 2014.

Changes in workforce participation

Australia experienced a 'demographic dividend' in recent decades like many other countries. That dividend, which boosted income growth, is coming to an end as the population ages.

Between 1970 and 2010, the proportion of Australia's population between 15 and 65 (those most likely to participate in the labour market) increased from 62.8 per cent to 67.4 per cent, driven by the post-war baby boom and a fall in the birth rate in the 1960s and 1970s. This increase in the share of the working age population helped underpin GDP growth, particularly in the 1980s, when labour productivity growth was relatively slow.

This trend is now beginning to reverse as people who made up that demographic 'bulge' begin to retire. The proportion of the population aged 65 and over is expected to increase to nearly 20 per cent in 2030 from 13.5 per cent in 2010.

An increasing proportion of older people are continuing to work, but their levels of participation in the workforce are lower than the average of other groups of working age.[27] This suggests that, as more people move into older age groups, the aggregate workforce participation rate is set to decline even if individuals in the 65-plus age group increasingly work beyond traditional retirement ages. In addition, younger people are delaying entry into working careers, instead choosing lengthier periods of study, overseas travel, and part-time employment. The combined effect of these phenomena is already placing downward pressure on participation, a process that is likely to continue over the coming decade.

Through this workforce participation effect, population ageing is likely to slow economic growth in coming decades and, in turn, is likely to reduce growth in incomes and the future revenue base of government. Population ageing is also likely to create additional demands on government spending, particularly in health, aged care and pensions. By 2050, it is projected that there will be only 2.7 people of working age to support each Australian aged 65 and over, compared with five working age people per aged person in 2010, and 7.5 in 1970.

SUPPORTING FUTURE GROWTH IN LIVING STANDARDS

For living standards to be maintained and grow in the future, Australia needs a sustainably strong economy and policy settings that maintain the ability of all households to participate in the opportunities created by growth. Having better

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27 The employment rate of workers aged between 55 and 64 has increased from 53.5 per cent in 2005 to 61.4 per cent in 2012. This is now well above the OECD and G7 averages of approximately 56 per cent. Australia ranked 11th amongst the OECD countries in 2012, up from 14th in 2005.

standards of living in the future will also require governments to have the capacity to provide goods and services and income support to the community, and to respond to external shocks.

This will require change in policies and mindsets, particularly given the outlook in the years ahead. Income growth is projected to be below its 20-year average over the next few years, reflecting the decline in terms of trade and subdued wages growth. The challenge for governments, businesses and the broader community is to address the constraints to potential economic growth and make the most of our opportunities.

Improving the flexibility and competitiveness of the economy

An important role for government is ensuring that policies support private effort and enterprise. Priorities include removing impediments and disincentives to work and initiative, such as subsidies to unviable businesses and poorly-targeted income assistance. The Government is firmly of the view that an attitude of entitlement removes incentives for change and progress, and reduces the scope for improvements in living standards over the longer term.

Government can also improve conditions for growth by facilitating trade with other countries and maintaining Australia's openness to foreign investment. Open markets give Australians access to overseas goods, finance and new business opportunities, and require domestic firms to be more dynamic and competitive in order to prosper.

Australia's continued openness to trade and foreign investment will also facilitate access to new technologies and ideas, which will be a critical driver of future productivity growth.

To this end, the Government has concluded free trade negotiations with Japan and Korea, and will seek to conclude negotiations with China and the regional Trans Pacific Partnership later this year.

More broadly, Australia's exporting sectors will have a number of new opportunities over the decades ahead, including those provided by anticipated increases in demand for services, agricultural products and high-value manufactures from emerging market economies. Foreign investment and measures to facilitate trade will allow Australia to harness these opportunities and benefit from growth in other countries, particularly in our region.

Competition in both input and product markets is one of the most important drivers of productivity and income growth. It provides incentives for businesses to be more efficient and to respond to the needs of their customers, both other businesses and consumers, creates the incentives for resources to be allocated to their most value-adding uses, and puts downward pressure on prices. The pressure exerted by well-functioning capital markets also encourages businesses to innovate and to raise management performance.

The flexibility and competiveness of the economy can be enhanced by removing government regulation where it is not required, or lessening its burden, and ensuring that frameworks for promoting competition and the efficiency of our labour and capital markets are suited to the needs of Australia's evolving economy.

Evidence suggests that there may have been increases in some forms of regulation over recent years.[28] Removing unnecessary obstacles to business formation and investment by start-up companies is a critical part of establishing an effective innovation system. High costs of entry and exit have the potential to discourage the type of start-up companies that often pioneer new technologies and work practices, and may also shield incumbent firms that may be less efficient from new competitors.[29]

The Government has embarked on a programme to reduce regulatory burdens and it will review the policy frameworks that promote the competitiveness of businesses.

Governments also have an important role in ensuring that the markets for infrastructure, education and innovation work well, and investing where this will produce benefits to the broader community.

This Budget provides for substantial investments in infrastructure to support productivity in the long term. Investment in infrastructure will also be important to generating economic activity in the near term as the economy transitions from resources investment-led growth.

Budget prudence and government efficiency

It is important that the Budget be restored to a sustainable basis and that government improve the productivity of its operations.

The process of restoring the Budget to a sustainable basis can help drive improved economic conditions in a number of ways. Productivity can be enhanced when governments live within their means, by allowing expenditure to be redistributed to productivity-supporting investment and requiring public sector providers to increase their efficiency and look for innovative solutions.

A sustainable Budget position will also place downward pressure on interest rates and exchange rates over time and enable fiscal buffers to be built, helping to support private sector investment activity and providing capacity to respond to future external shocks.

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28 For example, international data on the burden of government regulation score Australia 2.8 (out of 7, 1 being most burdensome) in 2013-14, compared to 3.2 in 2009-10. Some sectors, for example the small business sector, have unduly borne the burden of these changes (Productivity Commission, 2013b).

29 Dolman and Gruen, 2012.

Government can improve productivity by simply getting out of the way of business and individuals. As many government entities do not directly face the discipline of a competitive market, they are generally less efficient, so reducing or eliminating activity that can be performed by the private sector can also increase productivity.

Further, the Government can increase public sector productivity by ceasing activities that can be performed by other levels of government, which reduces unnecessary duplication and overlap, and undertaking those that it is best placed to do.

The Government's medium term strategy of returning the Budget to a sustainable surplus and reducing the government share of the economy over time will free up resources for the private sector to drive economic growth and create jobs.

CONCLUSION

Australians have enjoyed rapid rates of income growth over the past two decades, which have contributed to high living standards relative to the rest of the world. With the terms of trade and population ageing now detracting from income growth, productivity growth is likely to be the predominant driver of income growth over the next decade. It is reasonable to expect some improvement in Australia's productivity performance from a cyclical turnaround in labour and capital utilisation, particularly in the resources sector. However, longer-run factors, including a gradual shift toward lower-productivity industries, make prospects for productivity growth in Australia more challenging than usual.

Without further effort, the increases in living standards to which we are accustomed are unlikely to continue into the future. It is imperative that we address inefficiencies in the economy and get economic settings right.

The Government has started the process of reform by laying out a plan for fiscal repair, making well-targeted investments in economic infrastructure, and implementing policy changes that will support business effort and creativity and workforce participation. The Government will pursue these, and further reforms, over the medium term.

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STATEMENT 5: REVENUE

The 2014-15 Budget forecasts for tax receipts are broadly unchanged since the 2013-14 MYEFO, revised upwards by $1.8 billion in 2014-15 and $2.1 billion over the four years to 2016-17. Excluding GST, tax receipts are $800 million higher in 2014-15 but $2.4 billion lower over the four years to 2016-17.

While the forecast for nominal GDP is similar to the 2013-14 MYEFO, forecast changes in the composition of growth have affected the composition of tax receipts. Household consumption and corporate profits have been revised up resulting in higher expected GST and company tax, while softer expected wage growth means lower expected individuals and superannuation fund taxes. Overall, these factors weaken the outlook for tax receipts. These variations have been broadly offset by policy decisions, including the Temporary Budget Repair Levy.

The tax-to-GDP ratio is broadly unchanged since the 2013-14 MYEFO.

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STATEMENT 5: REVENUE

OVERVIEW

Relative to the 2013-14 MYEFO, expected tax receipts have been revised upwards by around $1.8 billion in 2014-15 and $2.1 billion over the four years to 2016-17. Excluding GST, tax receipts have been revised up around $800 million in 2014-15 but down $2.4 billion over the four years to 2016-17. As GST is paid to the states, tax receipts excluding GST represent the revenue available to the Australian Government.

Excluding policy, changes in the forecasts for the nominal economy have reduced expected tax receipts. Stronger expected company profits and household consumption have resulted in upward revisions to company tax and GST totalling around $9.2 billion over the four years to 2016-17. This has been partially offset by weaker expected wage growth contributing to the write-down of individuals and superannuation fund taxes over the forward estimates totalling around $7.3 billion. In addition, tobacco excise and customs duties estimates as well as resource rent taxes forecasts have in total been revised down $3.4 billion over the four years to 2016-17.

Total tax receipts as a per cent of GDP are expected to increase from 21.6 per cent in 2013-14 to 23.2 per cent by the end of the forward estimates, an increase of 1.7 percentage points (Table 1). However, excluding GST the tax-to-GDP ratio is expected to increase by 1.5 percentage points.

Table 1: Australian Government general government receipts

	Actual	Estimates			Projections	
	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Total taxation receipts ($b)	**326.4**	**341.6**	**360.4**	**385.3**	**411.7**	**437.6**
Growth on previous year (%)	5.3	4.7	5.5	6.9	6.9	6.3
Per cent of GDP	21.4	21.6	22.1	22.5	23.0	23.2
Tax receipts excluding GST ($b)	**278.4**	**290.9**	**306.7**	**328.3**	**351.3**	**373.8**
Growth on previous year (%)	5.5	4.5	5.4	7.0	7.0	6.4
Per cent of GDP	18.3	18.4	18.8	19.2	19.6	19.8
Non-taxation receipts ($b)	**24.6**	**21.9**	**25.4**	**25.1**	**25.2**	**30.4**
Growth on previous year (%)	23.6	-11.3	16.3	-1.0	0.1	20.9
Per cent of GDP	1.6	1.4	1.6	1.5	1.4	1.6
Total receipts ($b)	**351.1**	**363.5**	**385.8**	**410.4**	**436.8**	**468.0**
Growth on previous year (%)	6.4	3.5	6.1	6.4	6.4	7.1
Per cent of GDP	23.1	23.0	23.6	24.0	24.4	24.9

Total receipts, including non-tax receipts, have been revised down by $1.4 billion in 2013-14, up $3.0 billion in 2014-15 and up $7.0 billion over the four years to 2016-17 (see Table 4). Relative to the 2013-14 MYEFO, tax receipts have been revised down by $1.8 billion in 2013-14, up $1.8 billion in 2014-15, and up $2.1 billion over the four years to 2016-17 (Table 2).

Table 2: Reconciliation of Australian Government general government taxation receipts from the 2013-14 Budget

	Estimates		Projections		
	2013-14	2014-15	2015-16	2016-17	Total
	$m	$m	$m	$m	$m
Tax receipts at 2013-14 Budget	**354,854**	**377,751**	**405,809**	**431,494**	**1,569,908**
Changes from 2013-14 Budget to 2013 PEFO					
Effect of policy decisions	947	-1,738	1,179	4,784	5,172
Effect of parameter and other variations	-7,691	-8,508	-8,327	-8,167	-32,693
Total variations	-6,744	-10,246	-7,148	-3,383	-27,521
Tax receipts at 2013 PEFO	**348,110**	**367,506**	**398,661**	**428,111**	**1,542,387**
Changes from 2013 PEFO to 2013-14 MYEFO					
Effect of policy decisions	1,674	-908	-3,020	-5,470	-7,724
Effect of parameter and other variations	-6,304	-7,995	-11,202	-12,310	-37,811
Total variations	-4,630	-8,903	-14,222	-17,779	-45,534
Tax receipts at 2013-14 MYEFO	**343,480**	**358,603**	**384,439**	**410,331**	**1,496,853**
Changes from 2013-14 MYEFO to 2014-15 Budget					
Effect of policy decisions	-2	614	1,837	2,600	5,049
Effect of parameter and other variations	-1,836	1,155	-990	-1,240	-2,911
Total variations	-1,837	1,769	847	1,359	2,138
Tax receipts at 2014-15 Budget	**341,643**	**360,372**	**385,286**	**411,691**	**1,498,991**

The upward revision in tax receipts in 2014-15 is primarily driven by stronger anticipated wage growth in 2014-15 since the 2013-14 MYEFO. However, over the remaining forward years, wages are expected to grow less strongly relative to the 2013-14 MYEFO.

Abstracting from policy decisions, tax receipts have been revised down $2.9 billion over the four years to 2016-17 since the 2013-14 MYEFO. Policy measures add $5.0 billion to tax receipts over the four years to 2016-17. These measures include reintroducing the indexation of fuel excise, introducing a temporary levy on individuals' taxable incomes above $180,000 and removing poorly targeted tax concessions. Since the 2013 PEFO, policy decisions have lowered tax receipts by $2.7 billion over the four years to 2016-17. For more details on revenue and expense measures introduced at this Budget, refer to *Budget Paper 2*.

The 2013-14 MYEFO made provisions for a number of election commitments that were still subject to finalisation at the time. These provisions related to the introduction of a 1.5 per cent company levy to fund the new Paid Parental Leave Scheme, as well as the associated increased income and superannuation taxes flowing from the scheme and the reduction in company tax rate to 28.5 per cent. In addition, a provision was made for the impact of a free trade agreement with Korea and for unfunded superannuation liabilities relating to New South Wales universities.

The MYEFO provision for the Korea-Australia Free Trade Agreement and unfunded superannuation liabilities relating to New South Wales universities have now been removed as these impacts are included as measures in the 2014-15 Budget.

The 2014-15 Budget provisions for the Japan Economic Partnership agreement as well as continuing to provision for the introduction of a 1.5 per cent company levy to fund the new Paid Parental Leave Scheme and reduction in the company tax rate to 28.5 per cent.

TAX OUTLOOK

Since the 2013-14 MYEFO, tax receipts, abstracting from policy, are broadly unchanged over the forward estimates. Expected tax receipts are lower in 2013-14 largely driven by lower than expected year-to-date collections, while across the forward estimates tax receipts have been affected by broadly offsetting revisions to different components of nominal GDP.

Spare capacity in the labour market has weakened the outlook for wages which is more than offset by stronger expected corporate profits, driven by higher than previously anticipated domestic prices in early 2013-14. Household consumption is expected to be higher as the household sector continues to respond to low interest rates. For more details on the economic outlook see Budget Statement 2.

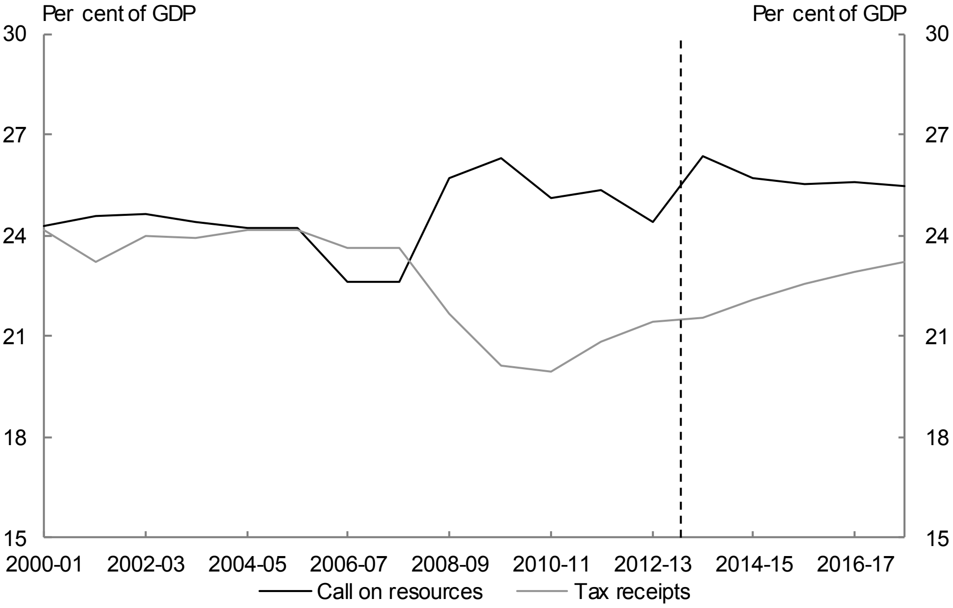
The downgrade to anticipated wage growth has resulted in a downward revision to individuals tax of around $4.4 billion over the four years to 2016-17. Stronger forecast gross operating surplus (GOS), the National Accounts measure of corporate profits, has resulted in company tax being revised upwards over the four years to 2016-17 by $4.7 billion since the 2013-14 MYEFO. In addition, higher than expected consumption has also led to a significant revision to GST receipts which are forecast to increase by around $4.5 billion over the four years to 2016-17.

Forecast superannuation fund taxes are expected to be lower relative to the 2013-14 MYEFO, down $330 million in 2013-14 and $2.9 billion over the four years to 2016-17. The revision is primarily due to lower expected capital gains tax.

Total capital gains receipts have been revised down by around $4.3 billion over the four years to 2016-17. This has been primarily driven by lower expected superannuation funds capital gains tax.

Including policy, revisions to forecast tax receipts mean the tax-to-GDP ratio is also broadly unchanged since the 2013-14 MYEFO, returning to and increasing above the 20-year average of 22.4 per cent by the end of the forward estimates.

Chart 1: Tax-to-GDP ratio and the government's call on resources



Source: Treasury.

The tax-to-GDP ratio does not show the government's total call on community resources, which is a measure of the amount of receipts and borrowings required to fund government activities. By including government borrowings, the government's call on resources falls gradually over the medium-term in marked contrast to the path of the previous six years (Chart 1).

Another aspect affecting the tax outlook is the revised medium-term economic projection methodology. The 2014-15 Budget adopts a new framework, which allows for a reduction in the spare capacity in the economy — a closing of the output gap — over the five years following the detailed forecast period. Although nominal GDP is higher as a result of the new methodology, compositional changes result in slower wage growth and higher corporate profits growth. These changes result in lower forecast total tax receipts, down $700 million in 2016-17 and $600 million in 2017-18 (Table 3). For more details on the revised medium-term economic projection methodology see Budget Statement 2.

Table 3: The impact in the forward estimates of the revised medium-term economic projection methodology

	Estimates			Projections	
	2013-14	2014-15	2015-16	2016-17	2017-18
	$m	$m	$m	$m	$m
Individuals tax	0	0	0	-1,400	-2,300
Corporate taxes	0	0	0	700	1,700
Total tax receipts	**0**	**0**	**0**	**-700**	**-600**

VARIATIONS IN RECEIPTS ESTIMATES

Table 4 reconciles the 2014-15 Budget's estimates of total receipts, which include non-tax receipts, with the 2013-14 Budget and the 2013-14 MYEFO estimates. These differences reflect the impact of parameter and other variations and policy decisions.

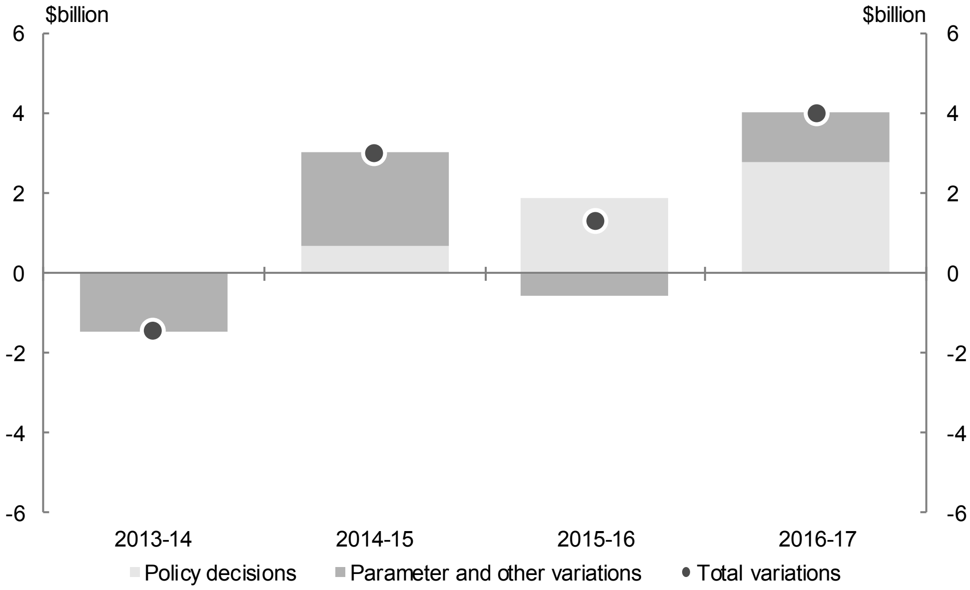
Table 4: Reconciliation of Australian Government general government receipts estimates from the 2013-14 Budget and the 2013-14 MYEFO[(a)]

	Estimates			Projections	
	2013-14	2014-15	2015-16	2016-17	Total
	$m	$m	$m	$m	$m
Receipts at 2013-14 Budget	**375,993**	**401,171**	**428,931**	**453,642**	**1,659,738**
Changes from 2013-14 Budget to 2013-14 MYEFO					
Effect of policy decisions	2,741	-2,374	-1,163	-43	-839
Effect of parameter and other variations	-13,804	-16,054	-18,684	-20,783	-69,325
Total variations	**-11,063**	**-18,428**	**-19,847**	**-20,826**	**-70,164**
Receipts at 2013-14 MYEFO	**364,930**	**382,743**	**409,084**	**432,817**	**1,589,574**
Changes from 2013-14 MYEFO to 2014-15 Budget					
Effect of policy decisions	-2	673	1,916	2,786	5,373
Effect of parameter and other variations	-1,432	2,362	-573	1,247	1,604
Total variations	**-1,434**	**3,035**	**1,343**	**4,033**	**6,977**
Receipts at 2014-15 Budget	**363,496**	**385,778**	**410,427**	**436,849**	**1,596,551**

(a) Includes expected Future Fund earnings.

Since the 2013-14 MYEFO, total receipts have been revised up by $7.0 billion in the four years to 2016-17, reflecting an upwards revision of $1.6 billion from parameter and other variations, and an increase of $5.4 billion of policy decisions. Excluding GST, total receipts have been revised up $2.0 billion in 2014-15 and $2.5 billion over the four years to 2016-17.

Chart 2: Revisions to total receipts estimates since the 2013-14 MYEFO



Source: Treasury.

The changes in the individual revenue heads relative to the 2013-14 MYEFO are shown in Table 5 and Table 6 for 2013-14 and 2014-15 respectively.

Table 5: 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	157,200	156,700	-500	-0.3
Gross other individuals	34,000	34,200	200	0.6
less: Refunds	27,200	27,100	-100	-0.4
Total individuals and other withholding tax	164,000	163,800	-200	-0.1
Fringe benefits tax	4,090	4,090	0	0.0
Company tax	69,000	68,000	-1,000	-1.4
Superannuation fund taxes	6,860	6,530	-330	-4.8
Minerals resource rent tax(a)	500	170	-330	-66.0
Petroleum resource rent tax	1,750	1,400	-350	-20.0
Income taxation receipts	**246,200**	**243,990**	**-2,210**	**-0.9**
Goods and services tax	50,248	51,003	755	1.5
Wine equalisation tax	740	760	20	2.7
Luxury car tax	400	430	30	7.5
Excise and customs duty				
Petrol	5,850	6,000	150	2.6
Diesel	8,990	8,990	0	0.0
Other fuel products	3,820	3,690	-130	-3.4
Tobacco	8,350	7,850	-500	-6.0
Beer	2,360	2,370	10	0.4
Spirits	1,990	1,890	-100	-5.0
Other alcoholic beverages(b)	970	960	-10	-1.0
Other customs duty				
Textiles, clothing and footwear	750	770	20	2.7
Passenger motor vehicles	930	920	-10	-1.1
Other imports	1,570	1,650	80	5.1
less : Refunds and drawbacks	260	360	100	38.5
Total excise and customs duty	35,320	34,730	-590	-1.7
Carbon pricing mechanism	7,180	7,180	0	0.0
Agricultural levies	459	476	17	3.8
Other taxes	2,933	3,074	140	4.8
Indirect taxation receipts	**97,280**	**97,653**	**373**	**0.4**
Taxation receipts	**343,480**	**341,643**	**-1,837**	**-0.5**
Sales of goods and services	8,626	8,764	138	1.6
Interest received	3,591	3,210	-381	-10.6
Dividends	2,883	3,040	157	5.4
Other non-taxation receipts	6,350	6,840	490	7.7
Non-taxation receipts	**21,451**	**21,854**	**403**	**1.9**
Total receipts	**364,930**	**363,496**	**-1,434**	**-0.4**
Memorandum:				
Total excise	*26,400*	*25,720*	*-680*	*-2.6*
Total customs duty	*8,920*	*9,010*	*90*	*1.0*
Capital gains tax(c)	*7,900*	*7,500*	*-400*	*-5.1*
Medicare and DisabilityCare Australia levy(d)	*9,950*	*10,480*	*530*	*5.3*

(a) Net receipts from the MRRT is expected to be $100 million in 2013-14 which represents the net receipt impact across different revenue heads. These include offsetting reductions in company tax (through deductibility) and interactions with other taxes. The Government has announced the MRRT will not apply beyond 30 June 2014.

(b) Other alcoholic beverages are those not exceeding 10 per cent by volume of alcohol (excluding beer, brandy and wine).

(c) Capital gains tax is part of gross other individuals, company tax and superannuation fund taxes.

(d) At the 2013-14 MYEFO, the Medicare and DisabilityCare Australia levy estimates were based on when the liability to the levy is assessed. From the 2014-15 Budget, estimates are based on when collections relating to the levy are received.

Table 6: Reconciliation of 2014-15 general government (cash) receipts

	Estimates		Change on MYEFO	
	MYEFO	Budget		
	$m	$m	$m	%
Individuals and other withholding taxes				
Gross income tax withholding	168,800	169,400	600	0.4
Gross other individuals	36,600	37,100	500	1.4
less : Refunds	28,000	27,700	-300	-1.1
Total individuals and other withholding tax	177,400	178,800	1,400	0.8
Fringe benefits tax	4,470	4,360	-110	-2.5
Company tax	70,500	71,600	1,100	1.6
Superannuation fund taxes	8,760	7,680	-1,080	-12.3
Minerals resource rent tax(a)	300	0	-300	-100.0
Petroleum resource rent tax	2,100	1,950	-150	-7.1
Income taxation receipts	**263,530**	**264,390**	**860**	**0.3**
Goods and services tax	52,948	53,978	1,030	1.9
Wine equalisation tax	780	780	0	0.0
Luxury car tax	380	360	-20	-5.3
Excise and customs duty				
Petrol	5,650	5,950	300	5.3
Diesel	9,180	9,250	70	0.8
Other fuel products	3,580	3,710	130	3.6
Tobacco	9,110	8,710	-400	-4.4
Beer	2,360	2,400	40	1.7
Spirits	2,090	1,930	-160	-7.7
Other alcoholic beverages(b)	990	980	-10	-1.0
Other customs duty				
Textiles, clothing and footwear	600	600	0	0.0
Passenger motor vehicles	920	820	-100	-10.9
Other imports	1,600	1,650	50	3.1
less : Refunds and drawbacks	260	360	100	38.5
Total excise and customs duty	35,820	35,640	-180	-0.5
Carbon pricing mechanism	1,695	1,695	0	0.0
Agricultural levies	470	469	-1	-0.1
Other taxes	2,980	3,059	79	2.7
Indirect taxation receipts	**95,073**	**95,982**	**909**	**1.0**
Taxation receipts	**358,603**	**360,372**	**1,769**	**0.5**
Sales of goods and services	8,442	8,910	468	5.5
Interest received	3,544	3,657	113	3.2
Dividends	3,891	4,257	366	9.4
Other non-taxation receipts	8,263	8,583	320	3.9
Non-taxation receipts	**24,140**	**25,407**	**1,267**	**5.2**
Total receipts	**382,743**	**385,778**	**3,035**	**0.8**
Memorandum:				
Total excise	*26,640*	*26,370*	*-270*	*-1.0*
Total customs duty	*9,180*	*9,270*	*90*	*1.0*
Capital gains tax(c)	*10,700*	*9,000*	*-1,700*	*-15.9*
Medicare and DisabilityCare Australia levy(d)	*10,380*	*14,160*	*3,780*	*36.4*
Temporary Budget Repair Levy(e)	*-*	*600*	*-*	*-*

(a) Net receipts from the MRRT is expected to be zero in 2014-15 which represents the net receipt impact across different revenue heads. These include offsetting reductions in company tax (through deductibility) and interactions with other taxes.
(b) Other alcoholic beverages are those not exceeding 10 per cent by volume of alcohol (excluding beer, brandy and wine).
(c) Capital gains tax is part of gross other individuals, company tax and superannuation fund taxes.
(d) At the 2013-14 MYEFO, the Medicare and DisabilityCare Australia levy estimates were based on when the liability to the levy is assessed. From the 2014-15 Budget, estimates are based on when collections relating to the levy are received.
(e) This represents the net impact of the Temporary Budget Repair Levy on individuals and other withholding taxes. An additional $680 million is expected to be raised over the forward estimates through the temporary increase in the FBT rate that was announced as part of the temporary levy.

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 tax collections, and other non-policy factors. The key economic parameters that influence receipts are shown in Table 7. Analysis of the sensitivity of the tax receipts estimates to changes in the economic outlook is provided in Budget Statement 3 (Appendix A).

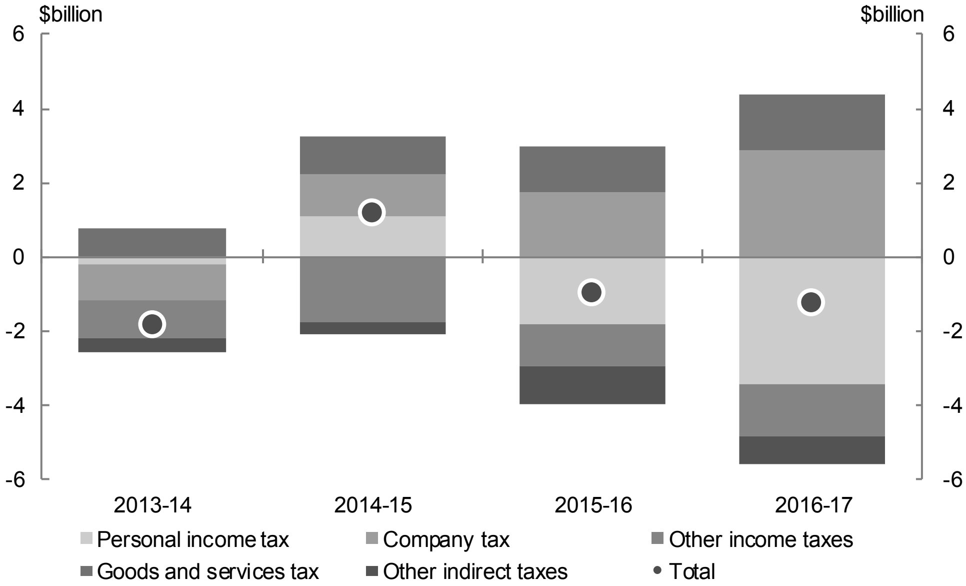
Table 7: Key economic parameters[(a)]

	Estimates			Projections	
	2013-14	2014-15	2015-16	2016-17	2017-18
Revenue parameters at 2014-15 Budget					
Nominal gross domestic product (non-farm)	4	3 1/4	4 3/4	5	5
Change since 2013-14 MYEFO	*1/4*	*- 1/4*	*0*	*1/4*	*na*
Compensation of employees (non-farm)(b)	3 1/4	4 1/4	4 1/4	5 1/4	5 1/4
Change since 2013-14 MYEFO	*1/4*	*1/4*	*-1 1/2*	*- 1/4*	*na*
Corporate gross operating surplus(c)	5 1/4	1/2	5	4	4 1/4
Change since 2013-14 MYEFO	*1 1/4*	*-2 1/4*	*2 3/4*	*1 1/2*	*na*
Unincorporated business income (non-farm)	1 1/4	1 1/4	2 3/4	5	5
Change since 2013-14 MYEFO	*0*	*1/2*	*-2*	*1/4*	*na*
Property income(d)	10 1/2	8 1/2	12 1/4	5	5
Change since 2013-14 MYEFO	*- 1/4*	*2*	*7 1/4*	*0*	*na*
Consumption subject to GST	4 1/2	5	5 1/4	5 1/2	5 3/4
Change since 2013-14 MYEFO	*1 1/4*	*3/4*	*- 1/4*	*0*	*na*

(a) Current prices, per cent change on previous years. Changes since the 2013-14 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 System of 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 2013-14 MYEFO, parameter and other variations have reduced tax receipts by $1.8 billion in 2013-14, increased tax receipts by $1.2 billion in 2014-15, and decreased them by $2.9 billion over the four years to 2016-17 (Chart 3). Excluding GST, from the effect of parameter and other variations, forecast tax receipts have declined by $2.6 billion in 2013-14, increased by around $150 million in 2014-15 and declined by around $7.4 billion over the four years to 2016-17.

Chart 3: Parameter and other variations to tax receipts since the 2013-14 MYEFO



Source: Treasury.

In aggregate, tax receipts are expected to grow by 4.7 per cent in 2013-14 and 5.5 per cent in 2014-15. At a disaggregated level, different revenue heads are expected to grow at different rates.

Individuals' income and other withholding taxation receipts

Receipts from gross income tax withholding (ITW) are forecast to grow by 4.6 per cent in 2013-14 and 8.1 per cent in 2014-15. Excluding measures, relative to the 2013-14 MYEFO, softer than expected wages growth has resulted in a downward revision to gross ITW receipts of $6.1 billion over the four years to 2016-17. ITW receipts have also been affected by new policy decisions, including the Temporary Budget Repair Levy from 2014-15.

Gross receipts from other individuals (OI) are expected to grow by 2.7 per cent in 2013-14 and 8.5 per cent in 2014-15. Since the 2013-14 MYEFO, OI receipts excluding measures, are expected to be $200 million higher in 2013-14 and around $250 million higher over the four years. These upwards revisions are driven by slightly stronger than expected collections in 2013-14 and expected wages and salaries growth in 2013-14 and 2014-15. OI has also been affected by the Temporary Budget Repair Levy from 2014-15.

Income tax refunds for individuals, which have a negative effect on receipts, are expected to grow by 1.1 per cent in 2013-14 and 2.2 per cent in 2014-15. Relative to the 2013-14 MYEFO, refunds are expected to be lower (an increase in overall tax receipts) excluding measures, revised down $100 million in 2013-14 and $1.5 billion over the four years to 2016-17. This has been driven by weaker than expected payouts for refunds in 2013-14 and lower anticipated individuals income tax over the forward estimates. The removal of the Mature Age Workers Tax Offset and Dependent Spouse Tax Offset, which had become outdated or poorly targeted, are expected to also affect refunds.

Fringe benefits tax

Tax receipts from fringe benefits tax (FBT) are forecast to grow by 4.3 per cent in 2013-14 and 6.6 per cent in 2014-15. Excluding measures, tax receipts from FBT are unchanged in 2013-14 but $450 million lower over the four years to 2016-17 relative to the 2013-14 MYEFO. The downward revision over the forward estimates is driven by softer expected wage growth. FBT receipts have also been affected by the Temporary Budget Repair Levy from 2014-15.

Company tax

Company tax receipts are expected to grow by 1.6 per cent in 2013-14 and 5.3 per cent in 2014-15. Relative to the 2013-14 MYEFO, tax receipts from companies excluding measures are expected to be around $1.0 billion lower in 2013-14 owing to lower than expected collections relating to the 2012-13 income year. Further information on the reasons for this weakness will become available with more tax return data. Over the four years to 2016-17, company tax receipts have been revised up by around $4.7 billion reflecting higher corporate profitability.

Superannuation fund taxes

Superannuation funds receipts are expected to decline by 14.8 per cent in 2013-14 and grow by 17.6 per cent in 2014-15. The large growth rate in 2014-15 is driven by superannuation capital gains tax recovering from historical lows of the previous four years. Excluding measures, since the 2013-14 MYEFO, receipts are expected to be around $330 million lower in 2013-14 and $2.9 billion over the four years to 2016-17 largely reflecting a revision to anticipated superannuation capital gains tax with weaker wages also contributing.

Resource rent taxes

Since the 2013-14 MYEFO, minerals resource rent tax (MRRT) receipts have been revised down by $330 million in 2013-14 and $300 million in 2014-15. The 2014-15 nil estimate takes into account balancing payments and refunds from the 2013-14 year.

Petroleum resource rent tax (PRRT) receipts are forecast to decline by 7.1 per cent in 2013-14 and grow by 39.3 per cent in 2014-15. The growth rate in 2014-15 is driven by increased production from 2013-14 to 2014-15 as well as the timing of payments. Excluding measures, PRRT receipts have been revised down by $350 million in 2013-14 and around $1.3 billion over the four years to 2016-17 since the 2013-14 MYEFO. These revisions reflect lower expected profitability of PRRT liable entities.

Box 1: The MRRT has raised much less than originally forecast

This Budget confirms that receipts from the mining tax are a small fraction of what was originally estimated under the former government.

When the resource super profits tax (RSPT) was announced in May 2010, it was forecast to raise $12.0 billion in its first two years, and $49.5 billion over five years.

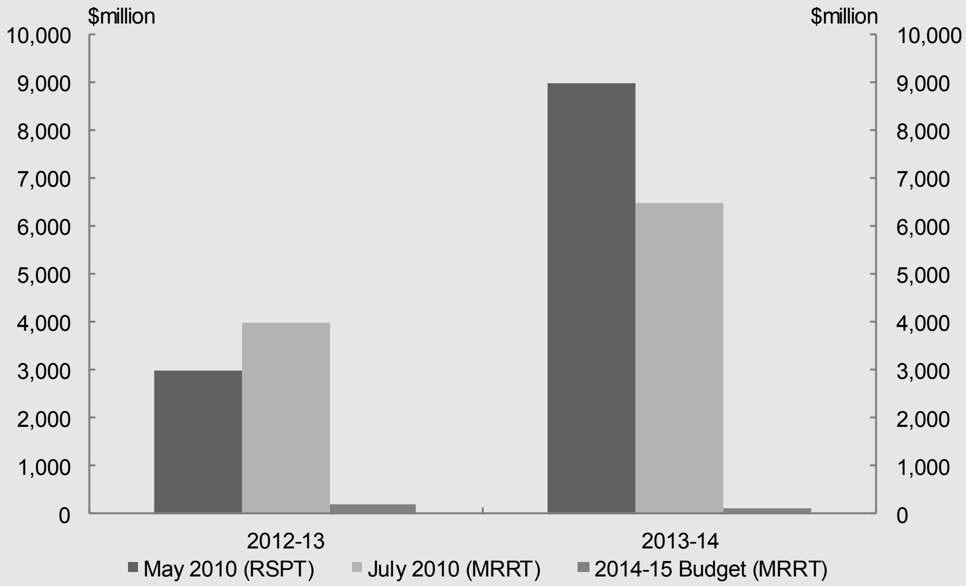
In July 2010, the former government announced it would introduce a modified mining tax from 1 July 2012, the minerals resource rent tax (MRRT), in place of the RSPT. Forecast receipts from the MRRT were $10.5 billion over the first two years, and $26.5 billion over five years (Chart A).

In contrast, the Final Budget Outcome for 2012-13 revealed that in its first year, the MRRT raised just $200 million, or 5 per cent of the amount originally estimated. The shortfall in collections was driven by a combination of lower Australian dollar commodity prices and design elements of the MRRT.

In 2013-14, net receipts from the MRRT are expected to be even lower, around $100 million, partly due to some companies claiming refunds from overpaid MRRT instalments from the previous year (this is down from $700 million forecast in the 2013-14 Budget and 2013 PEFO). The 2014-15 Budget forecast of $100 million is less than 2 per cent of the amount originally envisaged.

The MRRT will be repealed from 1 July 2014.

Chart A: Estimates of net receipts from the mining tax



Note: Estimates of net receipts from the RSPT and MRRT represent the net impact across different revenue heads. These include offsetting reduction in company tax (through deductibility) and interactions with other taxes.
Source: Treasury

Goods and services tax

Receipts from GST are forecast to grow by 5.0 per cent in 2013-14 and 5.8 per cent in 2014-15. Since the 2013-14 MYEFO, GST receipts excluding measures have been revised up $750 million in 2013-14 and $4.5 billion over the four years to 2016-17 as a result of stronger expected consumption growth.

Excise and customs duty

Excise and customs duty receipts are forecast to grow by 3.5 per cent in 2013-14 and by 2.6 per cent in 2014-15. Excluding measures, excise and customs duty receipts have been revised down from the 2013-14 MYEFO by $600 million in 2013-14 and by $2.7 billion over the four years to 2016-17. This is primarily a result of lower expected clearances of tobacco and alcohol. New policy decisions, particularly fuel excise indexation, have increased expected excise and customs duty receipts.

Carbon pricing mechanism

Since the 2013-14 MYEFO, there has been no revision to expected carbon tax receipts. Carbon tax receipts are expected to be $7.2 billion in 2013-14 and $1.7 billion in 2014-15. The 2014-15 forecast carbon tax is a result of final acquittals of carbon tax liabilities for 2013-14.

Other sales taxes

Other sales taxes include the wine equalisation tax (WET) and the luxury car tax (LCT).

Since the 2013-14 MYEFO, estimates of WET receipts are broadly unchanged and expected to grow by 4.8 per cent in 2013-14 and 2.6 per cent in 2014-15.

LCT receipts are expected to decline by 1.0 per cent in 2013-14 and 16.3 per cent in 2014-15. Excluding measures, LCT receipts have been revised up $30 million in 2013-14, while over the four years to 2016-17 they are expected to decline by $190 million since the 2013-14 MYEFO. This downward revision reflects lower expected sales volumes and prices of motor vehicles subject to LCT.

Non-taxation receipts

Non-taxation receipts (including Future Fund earnings) are expected to decline by 11 per cent in 2013-14 and grow by 16 per cent in 2014-15. This largely relates to proceeds from the sale of spectrum licences.

Non-taxation receipts have been revised up from the 2013-14 MYEFO by $403 million in 2013-14 and $4.8 billion over the four years to 2016-17. This primarily reflects higher forecasts of royalties and returns from unclaimed superannuation accounts in 2013-14 ($455 million) and recognition of State and Territory contributions to the National Disability Insurance Scheme (NDIS) for the first time ($3.1 billion over the four years to 2016-17).

Table 8: Australian Government general government (cash) receipts

	Actual	Estimates			Projections	
	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
	$m	$m	$m	$m	$m	$m
Individuals and other withholding taxes						
Gross income tax withholding	149,807	156,700	169,400	181,500	193,400	206,700
Gross other individuals	33,294	34,200	37,100	40,700	44,700	48,800
less: Refunds	26,801	27,100	27,700	28,600	29,800	31,800
Total individuals and other withholding tax	156,300	163,800	178,800	193,600	208,300	223,700
Fringe benefits tax	3,922	4,090	4,360	4,930	5,210	5,100
Company tax	66,911	68,000	71,600	75,400	80,000	84,700
Superannuation fund taxes	7,661	6,530	7,680	10,380	11,280	11,810
Minerals resource rent tax(a)	310	170	0	0	0	0
Petroleum resource rent tax	1,507	1,400	1,950	1,900	1,900	1,900
Income taxation receipts	**236,610**	**243,990**	**264,390**	**286,210**	**306,690**	**327,210**
Goods and services tax	48,596	51,003	53,978	57,290	60,723	64,099
Wine equalisation tax	725	760	780	810	850	880
Luxury car tax	434	430	360	310	330	360
Excise and customs duty						
Petrol	5,990	6,000	5,950	6,150	6,450	6,850
Diesel	8,594	8,990	9,250	9,610	10,020	10,490
Other fuel products	3,466	3,690	3,710	3,510	3,690	3,930
Tobacco	7,660	7,850	8,710	9,640	10,680	10,980
Beer	2,257	2,370	2,400	2,470	2,590	2,730
Spirits	1,931	1,890	1,930	1,980	2,080	2,190
Other alcoholic beverages	944	960	980	1,010	1,060	1,120
Other customs duty						
Textiles, clothing and footwear	676	770	600	430	450	480
Passenger motor vehicles	892	920	820	610	630	660
Other imports	1,499	1,650	1,650	1,680	1,790	1,880
less: Refunds and drawbacks	354	360	360	360	360	360
Total excise and customs duty	33,554	34,730	35,640	36,730	39,080	40,950
Carbon pricing mechanism	3,631	7,180	1,695	0	0	0
Agricultural levies	463	476	469	474	486	496
Other taxes	2,412	3,074	3,059	3,462	3,533	3,567
Indirect taxation receipts	**89,815**	**97,653**	**95,982**	**99,076**	**105,001**	**110,352**
Taxation receipts	**326,426**	**341,643**	**360,372**	**385,286**	**411,691**	**437,562**
Sales of goods and services	9,071	8,764	8,910	9,121	11,279	15,893
Interest received	3,561	3,210	3,657	3,893	3,977	4,088
Dividends	3,420	3,040	4,257	2,461	2,675	3,751
Other non-taxation receipts	8,575	6,840	8,583	9,665	7,227	6,689
Non-taxation receipts	**24,627**	**21,854**	**25,407**	**25,141**	**25,158**	**30,422**
Total receipts	**351,052**	**363,496**	**385,778**	**410,427**	**436,849**	**467,985**
Memorandum:						
Total excise	*25,412*	*25,720*	*26,370*	*27,300*	*28,850*	*30,270*
Total customs duty	*8,143*	*9,010*	*9,270*	*9,430*	*10,230*	*10,680*
Capital gains tax(b)	*7,000*	*7,500*	*9,000*	*12,000*	*14,400*	*16,700*
Medicare and DisabilityCare Australia levy	*9,788*	*10,480*	*14,160*	*15,160*	*15,890*	*16,650*
Temporary Budget Repair Levy(c)	*-*	*-*	*600*	*780*	*850*	*190*

(a) Net receipts from MRRT for 2013-14 and 2014-15 can be obtained from Table 5 and 6.
(b) CGT is part of other individuals, companies and superannuation fund taxes. The 2012-13 figure is an estimate.
(c) This represents the net impact of the Temporary Budget Repair Levy on individuals and other withholding taxes. An additional $680 million is expected to be raised over the forward estimates through the temporary increase in the FBT rate that was announced as part of the temporary levy.

Revenue variations since the 2013-14 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 and other variations — as receipts. The timing of revenue and receipts estimates may vary. Table 9 provides a reconciliation of the Budget's revenue estimates with those at the 2013-14 MYEFO.

Table 9: Reconciliation of total Australian Government general government revenue estimates from the 2013-14 MYEFO

	Estimates			Projections	
	2013-14	2014-15	2015-16	2016-17	Total
	$m	$m	$m	$m	$m
Revenue at 2013-14 MYEFO	**373,922**	**387,882**	**417,423**	**445,032**	**1,624,259**
Changes from 2013-14 MYEFO to 2014-15 Budget					
Effect of policy decisions(a)	1	720	2,032	2,762	5,515
Effect of parameter and other variations	343	2,746	157	2,046	5,292
Total variations	**344**	**3,466**	**2,189**	**4,808**	**10,807**
Revenue at 2014-15 Budget	**374,267**	**391,348**	**419,612**	**449,840**	**1,635,067**

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

Since the 2013-14 MYEFO, total revenue has been revised up around $300 million in 2013-14 and $10.8 billion over the four years to 2016-17. The factors affecting revisions to tax receipts are also at play with regards to revenue.

The changes to individual revenue head accrual estimates since the 2013-14 MYEFO are shown in Tables 10 and 11. For the five year accrual table, the accrual equivalent of Table 8, see Budget Statement 9, Note 3.

Revenue and Receipts historical tables that have previously been published in Appendix C of Statement 5 are now available online and can be accessed at www.budget.gov.au.

Table 10: 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	158,510	158,300	-210	-0.1
Gross other individuals	36,650	37,180	530	1.4
less: Refunds	27,200	27,100	-100	-0.4
Total individuals and other withholding tax	167,960	168,380	420	0.3
Fringe benefits tax	4,140	4,140	0	0.0
Company tax	70,400	69,400	-1,000	-1.4
Superannuation fund taxes	6,990	6,580	-410	-5.9
Minerals resource rent tax(a)	500	170	-330	-66.0
Petroleum resource rent tax	1,900	1,470	-430	-22.6
Income taxation revenue	**251,890**	**250,140**	**-1,750**	**-0.7**
Goods and services tax	52,680	54,321	1,641	3.1
Wine equalisation tax	750	810	60	8.0
Luxury car tax	400	430	30	7.5
Excise and customs duty				
Petrol	5,740	5,890	150	2.6
Diesel	8,820	8,820	0	0.0
Other fuel products	3,730	3,600	-130	-3.5
Tobacco	8,260	7,770	-490	-5.9
Beer	2,320	2,330	10	0.4
Spirits	1,990	1,890	-100	-5.0
Other alcoholic beverages(b)	970	960	-10	-1.0
Other customs duty				
Textiles, clothing and footwear	750	770	20	2.7
Passenger motor vehicles	930	920	-10	-1.1
Other imports	1,580	1,660	80	5.1
less: Refunds and drawbacks	260	360	100	38.5
Total excise and customs duty	34,830	34,250	-580	-1.7
Carbon pricing mechanism	7,340	7,340	0	0.0
Agricultural levies	459	476	17	3.8
Other taxes	3,086	3,190	104	3.4
Indirect taxation revenue	**99,545**	**100,817**	**1,272**	**1.3**
Taxation revenue	**351,434**	**350,956**	**-478**	**-0.1**
Sales of goods and services	8,680	8,853	173	2.0
Interest	3,730	3,445	-286	-7.7
Dividends	3,792	4,288	496	13.1
Other non-taxation revenue	6,286	6,724	438	7.0
Non-taxation revenue	**22,488**	**23,310**	**822**	**3.7**
Total revenue	**373,922**	**374,267**	**344**	**0.1**
Memorandum:				
Total excise	*25,900*	*25,230*	*-670*	*-2.6*
Total customs duty	*8,930*	*9,020*	*90*	*1.0*
Capital gains tax(c)	*7,900*	*7,500*	*-400*	*-5.1*
Medicare and DisabilityCare Australia levy(d)	*9,950*	*10,480*	*530*	*5.3*

(a) Net revenue from the MRRT is expected to be $100 million in 2013-14 which represents the net revenue impact across different revenue heads. These include offsetting reductions in company tax (through deductibility) and interactions with other taxes. The Government has announced the MRRT will not apply beyond 30 June 2014.
(b) Other alcoholic beverages are those not exceeding 10 per cent by volume of alcohol (excluding beer, brandy and wine).
(c) Capital gains tax is part of gross other individuals, company tax and superannuation fund taxes.
(d) At the 2013-14 MYEFO, the Medicare and DisabilityCare Australia levy estimates were based on when the liability to the levy is assessed. From the 2014-15 Budget, estimates are based on when collections relating to the levy are received.

Table 11: Reconciliation of 2014-15 general government (accrual) revenue

	Estimates		Change on MYEFO	
	MYEFO $m	Budget $m	$m	%
Individuals and other withholding taxes				
Gross income tax withholding	170,210	171,170	960	0.6
Gross other individuals	39,500	40,120	620	1.6
less: Refunds	28,000	27,700	-300	-1.1
Total individuals and other withholding tax	181,710	183,590	1,880	1.0
Fringe benefits tax	4,550	4,440	-110	-2.4
Company tax	72,330	73,230	900	1.2
Superannuation fund taxes	8,930	7,870	-1,060	-11.9
Minerals resource rent tax(a)	300	0	-300	-100.0
Petroleum resource rent tax	2,100	2,060	-40	-1.9
Income taxation revenue	**269,920**	**271,190**	**1,270**	**0.5**
Goods and services tax	55,710	56,970	1,260	2.3
Wine equalisation tax	790	790	0	0.0
Luxury car tax	380	360	-20	-5.3
Excise and customs duty				
Petrol	5,670	5,970	300	5.3
Diesel	9,205	9,280	75	0.8
Other fuel products	3,590	3,730	140	3.9
Tobacco	9,130	8,730	-400	-4.4
Beer	2,370	2,410	40	1.7
Spirits	2,090	1,930	-160	-7.7
Other alcoholic beverages(b)	990	980	-10	-1.0
Other customs duty				
Textiles, clothing and footwear	600	600	0	0.0
Passenger motor vehicles	920	820	-100	-10.9
Other imports	1,600	1,650	50	3.1
less: Refunds and drawbacks	260	360	100	38.5
Total excise and customs duty	35,905	35,740	-165	-0.5
Carbon pricing mechanism	0	0	0	0.0
Agricultural levies	470	469	-1	-0.1
Other taxes	3,182	3,295	114	3.6
Indirect taxation revenue	**96,437**	**97,624**	**1,188**	**1.2**
Taxation revenue	**366,356**	**368,814**	**2,458**	**0.7**
Sales of goods and services	8,496	8,928	432	5.1
Interest	4,060	4,229	169	4.2
Dividends	2,448	2,570	122	5.0
Other non-taxation revenue	6,522	6,807	285	4.4
Non-taxation revenue	**21,525**	**22,534**	**1,008**	**4.7**
Total revenue	**387,882**	**391,348**	**3,466**	**0.9**
Memorandum:				
Total excise	*26,725*	*26,470*	*-255*	*-1.0*
Total customs duty	*9,180*	*9,270*	*90*	*1.0*
Capital gains tax(c)	*10,700*	*9,000*	*-1,700*	*-15.9*
Medicare and DisabilityCare Australia levy(d)	*10,380*	*14,160*	*3,780*	*36.4*
Temporary Budget Repair Levy(e)	*-*	*600*	*-*	*-*

(a) Net revenue from the MRRT is expected to be zero in 2014-15 which represents the net revenue impact across different revenue heads. These include offsetting reductions in company tax (through deductibility) and interactions with other taxes.
(b) Other alcoholic beverages are those not exceeding 10 per cent by volume of alcohol (excluding beer, brandy and wine).
(c) Capital gains tax is part of gross other individuals, company tax and superannuation fund taxes.
(d) At the 2013-14 MYEFO, the Medicare and DisabilityCare Australia levy estimates were based on when the liability to the levy is assessed. From the 2014-15 Budget, estimates are based on when collections relating to the levy are received.
(e) This represents the net impact of the Temporary Budget Repair Levy on individuals and other withholding taxes. An additional $680 million is expected to be raised over the forward estimates through the temporary increase in the FBT rate that was announced as part of the temporary levy.

APPENDIX A: REVENUE FORECASTING METHODOLOGY AND PERFORMANCE

The Government's receipts estimates are generally prepared using a 'base plus growth' methodology. The last known outcome (2012-13 for the 2014-15 Budget) is used as the base to which estimated growth rates are applied, resulting in receipts estimates for the current and future years.

Most of the indirect heads of revenue, such as GST and fuel excise, are forecast by mapping the growth rate of an appropriate economic parameter directly to the tax growth rate in the relevant head of revenue. A number of income taxes also involve 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.

The Government's receipts forecasts, like all forecasts, are subject to a margin of error. The receipts forecasts between 2002-03 and 2007-08 under-predicted outcomes (Chart A1). For example, the 2007-08 Budget forecast taxation receipts to grow by 5.0 per cent in 2007-08, while the outcome was growth 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 effects of the GFC and subsequent weaker than expected growth in wages and prices.

These historical forecasting errors form the basis of the confidence intervals for the revenue forecasts presented in Appendix B of Statement 3.

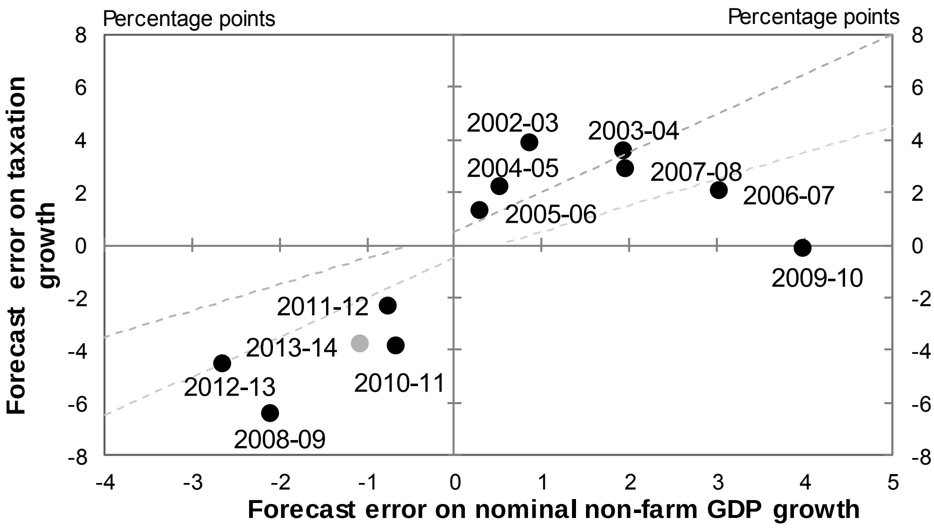
Chart A1: Budget forecast error on taxation receipts growth

Source: Treasury.

Forecasting errors 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.

The relative contribution of each of these sources of error varies from year to year, but there is generally a strong correlation between the accuracy of the forecasts of the nominal economy and the forecasts for tax receipts, as shown in Chart A2.

Chart A2: Budget forecast errors on nominal non-farm GDP growth and taxation receipts growth (excluding CGT)



Source: Treasury.

Chart A2 plots the forecast errors for nominal GDP against the errors for tax receipts. It shows where there has been an underestimate of nominal non-farm GDP growth, tax receipts tend to be underestimated and vice versa.

Furthermore, 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, assuming an error of plus or minus 0.5 per cent if there is zero error on the economic forecasts. Forecasting errors outside this range could be a result of factors such as timing of tax receipts

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) was 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.

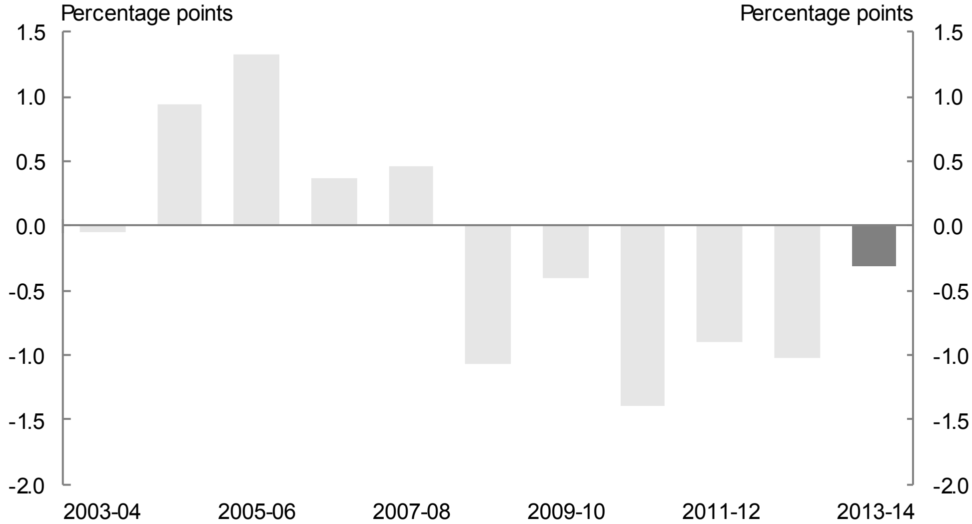
The forecast for 2013-14 tax receipts (excluding CGT) in the 2013-14 Budget is expected to be an over estimate of around 3.9 percentage points, compared to an over estimate of around 1.1 percentage points for nominal non-farm GDP growth. The forecasting error is partly attributable to the shortfall in 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. The largest driver of the expected forecast error for 2013-14, however, is gross income tax withholding (mostly withholding taxes on wages), which is estimated to be nearly $7 billion (4.1 per cent) short of the forecast in the 2013-14 Budget. This result, caused by much lower than expected growth in average wages, comes after five years of very accurate forecasts for gross income tax withholding (average error of 0.6 per cent).

Discussions of earlier years can be found in previous budgets.

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 A3).

Forecasting CGT is very difficult for several reasons. First, price movements above or below the assumption may cause CGT to be significantly different from the forecast. Secondly, CGT only applies to realised gains, so even if the asset prices are consistent with the assumptions, there may be more or less gains realised than was assumed. Thirdly, 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 both the timing and magnitude of the forecasts. Finally, relevant data on CGT is available over a year after the event, meaning that the forecasting assumptions will be slow to respond to changing taxpayer behaviour.

Chart A3. Forecast error on capital gains tax (contribution to tax receipts growth)



Source: Treasury.

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*, which made four recommendations in regard to revenue forecasting (out of 11 recommendations in total). These four revenue-specific recommendations were:

- developing a three sector company tax model (mining, financial and other);
- investigating whether further information can be drawn from the Australian Taxation Office's liaison with large corporate taxpayers;
- 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.

These have been implemented or are in the process of being implemented.

APPENDIX B: TAX EXPENDITURES

This appendix contains an overview of Australian Government tax expenditures, as required by the *Charter of Budget Honesty Act 1998* (CBHA).

The CBHA also requires the publication of an annual *Tax Expenditures Statement* (TES). The 2013 TES was published in January 2014 and provides a detailed description of Australian Government tax expenditures and, where possible, the estimated value or order of magnitude of each tax expenditure.

A tax expenditure arises where a provision of the tax law causes a deviation from the standard tax treatment that would apply to an activity or class of taxpayer: that is, from the benchmark tax treatment.

- The choice of benchmark unavoidably involves judgment and may therefore be contentious in some cases. This choice should not be interpreted as indicating a view on how an activity or class of taxpayer ought to be taxed.

As noted in the 2013 TES, there is a particular question about the choice of benchmark for savings. This is because most household saving is concentrated in property and superannuation — both of which are taxed concessionally against the income tax benchmark. Owner occupied housing is the largest form of savings held by Australian households, and is taxed consistently with an expenditure tax benchmark. To help facilitate discussion and understanding of the impact of utilising different benchmarks, experimental estimates for superannuation using an expenditure tax benchmark were reported in the 2013 TES.

The level of the tax expenditure estimates the difference in tax liabilities relative to the benchmark. Consistent with most OECD countries, the standard methodology (the 'revenue forgone' approach) used to estimate tax expenditures is based on the existing level of activity utilising a tax provision. These estimates therefore do not indicate the revenue loss to the Australian Government budget of specific tax expenditures, as there may be significant changes in activity were tax expenditures to be removed. Tax expenditures estimated by the revenue gain approach do attempt to estimate these losses, and several of these estimates are included in the 2013 TES.

Care needs to be taken when comparing tax expenditures with direct expenditures as they may, for example, measure different things. In addition, estimates from different editions of the TES should not be compared because benchmarks may have changed.

The information in Table B1 is derived from the 2013 TES and does not include the impact of decisions in this Budget on tax expenditures. Further information on tax expenditures is available in the 2013 TES.

Table B1: Estimates of large measured tax expenditures

Tax expenditure		Estimate $m			
		2014-15	2015-16	2016-17	2017-18
Large positive tax expenditures					
E6	Capital gains tax main residence exemption — discount component	17,500	17,500	17,500	18,000
C6	Superannuation — concessional taxation of superannuation entity earnings	18,450	21,700	24,100	26,950
C5	Superannuation — concessional taxation of employer contributions	17,800	19,150	20,700	22,300
E5	Capital gains tax main residence exemption	14,000	14,000	14,500	14,500
H29	GST — Food; uncooked, not prepared, not for consumption on premises of sale and some beverages	6,500	6,800	7,100	7,400
E16	Capital gains tax discount for individuals and trusts	5,410	6,970	7,640	8,310
H16	GST — Education	4,050	4,400	4,850	5,300
H19	GST — Health; medical and health services	3,600	3,900	4,150	4,450
H2	GST — Financial Supplies; input taxed treatment	3,450	3,650	3,850	4,050
C3	Concessional taxation of non-superannuation termination benefits	1,800	1,750	1,750	1,750
A42	Exemption of Family Tax Benefit, Parts A and B	2,180	2,240	2,290	2,350
B16	Exemption from interest withholding tax on certain securities	1,820	1,820	1,820	1,820
B88	Statutory effective life caps	1,795	1,780	1,705	1,605
A20	Exemption of the private health insurance rebate, including expense equivalent	1,510	1,600	1,650	1,690
D11	Philanthropy — Exemption for public and not-for-profit hospitals and public ambulance services	1,500	1,600	1,700	1,800
D14	Philanthropy — Exemption for public benevolent institutions (excluding public and not-for-profit hospitals)	1,450	1,540	1,630	1,710
A19	Exemption from the Medicare levy for residents with a taxable income below a threshold	1,790	1,960	2,040	2,120
A62	Philanthropy — Deduction for gifts to deductible gift recipients	1,230	1,330	1,410	1,500
H21	GST — Health; residential care, community care and other care services	1,120	1,200	1,290	1,380
F8	Concessional rate of excise levied on aviation gasoline and aviation turbine fuel	1,280	1,340	1,400	1,470
Large negative tax expenditures					
F25	Customs duty	- 2,870	- 2,750	- 2,900	- 3,050
F12	Higher rate of excise levied on cigarettes not exceeding 0.8 grams of tobacco	- 2,120	- 2,465	- 2,885	- 3,055

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. These functions are based on an international standard classification of functions of government that is incorporated into the Government Finance Statistics (GFS) reporting framework.

The first part of this statement provides information on trends in estimated expenses while the second part presents trends in net capital investment estimates. Estimates are on an Australian Government general government sector basis.

Statement 6 focuses on short to medium term trends in estimated expenses and their underlying drivers. Consistent with this emphasis, much of Statement 6 explains year on year changes across the forward estimates period.

The main trends are:

- general government expenses as a percentage of GDP are forecast to decrease from 26.2 per cent in 2013-14 to 25.4 per cent in 2014-15, and then remain relatively stable over the forward estimates;
- in 2014-15 the social security and welfare, health, defence and education functions account for nearly two thirds of total expenses, with social security and welfare accounting for slightly more than one third of total expenses;
- in real terms, the strongest growth across the budget and forward estimates is expected to occur in the social security and welfare function; and
- net capital investment in 2014-15 largely reflects continued investment in defence capital projects.

CONTENTS

STATEMENT 6: EXPENSES AND NET CAPITAL INVESTMENT

OVERVIEW

Australian Government general government sector (GGS) accrual expenses are expected to decrease by 2.3 per cent in real terms in 2014-15, with the growth rate increasing to 2016-17 before decreasing in 2017-18. Total expenses are expected to decline as a percentage of GDP from 26.2 per cent in 2013-14 to 25.4 per cent in 2014-15, and then remain relatively stable over the forward estimates.

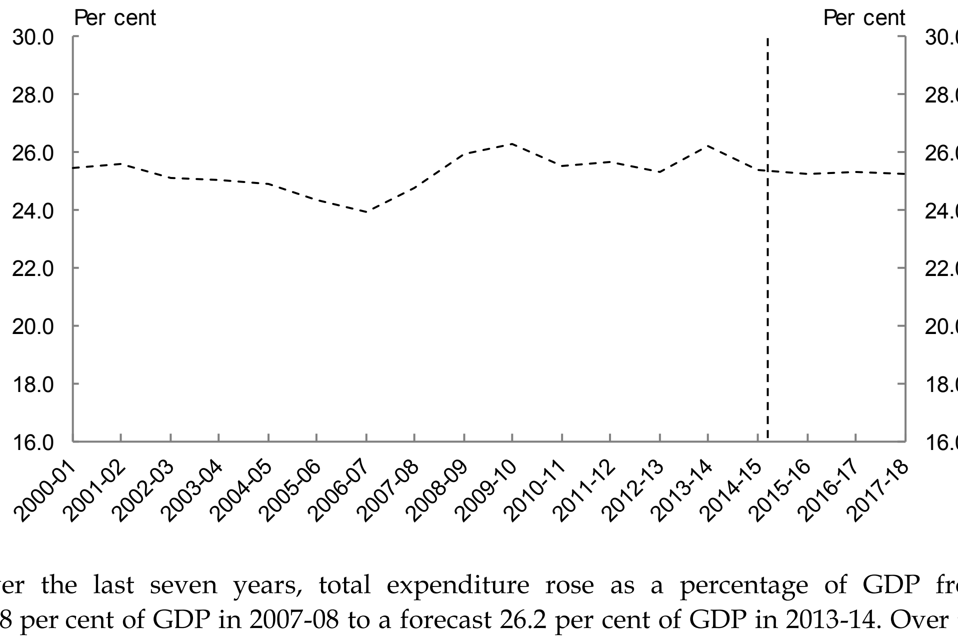
Table 1: Estimates of general government sector expenses

	MYEFO	Revised	Estimate		Projections	
	2013-14	2013-14	2014-15	2015-16	2016-17	2017-18
Total expenses ($b)	**412.1**	**415.3**	**414.8**	**431.1**	**453.8**	**475.4**
Real growth on previous year (%)(a)	5.0	5.6	-2.3	1.4	2.7	2.2
Per cent of GDP	26.1	26.2	25.4	25.2	25.3	25.3

(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 0.8 per cent per annum in real terms over the four years to 2017-18.

Chart 1: Total spending as a percentage of GDP



Over the last seven years, total expenditure rose as a percentage of GDP from 24.8 per cent of GDP in 2007-08 to a forecast 26.2 per cent of GDP in 2013-14. Over the forward estimates, expenses are expected to decline to 25.3 per cent of GDP in 2017-18 (see Chart 1).

Table 2 provides a reconciliation of expense estimates between the 2013-14 Budget, the *Pre-election Economic and Fiscal Outlook 2013* (PEFO), the *Mid-Year Economic and Fiscal Outlook 2013-14* (MYEFO) and the 2014-15 Budget showing the effect of policy decisions, and economic parameter and other variations.

Table 2: Reconciliation of expense estimates

	Estimates			Projections	
	2013-14	2014-15	2015-16	2016-17	Total
	$m	$m	$m	$m	$m
2013-14 Budget expenses	**398,301**	**415,663**	**431,015**	**454,747**	**1,699,726**
Changes from 2013-14 Budget to 2013 PEFO					
Effect of policy decisions(a)	1,134	-1,628	-1,565	-2,303	-4,362
Effect of parameter and other variations	2,050	1,950	1,461	2,092	7,554
Total variations	**3,184**	**322**	**-103**	**-211**	**3,191**
2013 PEFO expenses	**401,485**	**415,985**	**430,911**	**454,536**	**1,702,917**
Changes from 2013 PEFO to 2013-14 MYEFO					
Effect of policy decisions(a)	7,710	-1,996	-3,014	-6,467	-3,767
Effect of parameter and other variations	2,864	3,769	8,121	9,042	23,796
Total variations	**10,574**	**1,773**	**5,108**	**2,574**	**20,030**
2013-14 MYEFO expenses	**412,060**	**417,758**	**436,019**	**457,110**	**1,722,947**
Changes from 2013-14 MYEFO to 2014-15 Budget					
Effect of policy decisions(a)	51	-1,939	-5,498	-7,688	-15,075
Effect of economic parameter variations					
Total economic parameter variations	784	1,323	1,506	774	4,388
Unemployment benefits	*4*	*17*	*295*	*32*	*348*
Prices and wages	*32*	*211*	*-85*	*-812*	*-654*
Interest and exchange rates	*8*	*85*	*57*	*54*	*204*
GST payments to the States	*740*	*1,010*	*1,240*	*1,500*	*4,490*
Public debt interest	-15	-247	-608	-872	-1,741
Programme specific parameter variations	601	327	468	915	2,311
Slippage in decisions	0	0	0	0	0
Other variations	1,813	-2,378	-770	3,567	2,232
Total variations	**3,235**	**-2,914**	**-4,901**	**-3,304**	**-7,884**
2014-15 Budget expenses	**415,294**	**414,845**	**431,118**	**453,806**	**1,715,063**

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

The Government has made policy decisions which reduce expenses by $15.1 billion over the four years from 2013-14 to 2016-17 compared to the 2013-14 MYEFO, while programme specific parameter variations have increased expenses by $2.3 billion over the same period. Economic parameter variations are expected to increase expenses by $4.4 billion over the four years from 2013-14 to 2016-17 compared to the 2013-14 MYEFO. Public debt interest is estimated to decrease by $1.7 billion compared to the 2013-14 MYEFO.

Estimated expenses by function

Table 3 sets out the estimates of Australian Government GGS expenses by function for the period 2013-14 to 2017-18.

Table 3: Estimates of expenses by function

	Estimates			Projections	
	2013-14	2014-15	2015-16	2016-17	2017-18
	$m	$m	$m	$m	$m
General public services	34,151	23,185	22,752	23,357	23,051
Defence	22,840	24,197	25,249	25,719	27,632
Public order and safety	4,446	4,389	4,098	4,054	4,051
Education	29,707	29,553	30,206	31,843	32,788
Health	64,511	66,892	68,203	71,797	74,856
Social security and welfare	140,569	145,773	149,269	158,370	169,585
Housing and community amenities	8,383	4,835	4,902	5,026	5,105
Recreation and culture	3,725	3,512	3,360	3,385	3,343
Fuel and energy	7,047	7,058	7,172	7,439	7,836
Agriculture, forestry and fishing	2,629	2,752	2,868	2,642	2,565
Mining, manufacturing and construction	3,139	2,740	2,580	2,595	2,504
Transport and communication	8,495	7,286	9,697	10,949	7,469
Other economic affairs	11,263	10,670	10,366	9,646	9,485
Other purposes	74,388	82,002	90,395	96,984	105,178
Total expenses	**415,294**	**414,845**	**431,118**	**453,806**	**475,447**

Major expense trends between 2013-14 and 2014-15, and from 2014-15 over the forward years include movements in the following functions:

- **general public services** — the decrease in expenses between 2013-14 and 2014-15 is primarily due to a one-off grant provided to the Reserve Bank of Australia. The grant took the Reserve Bank Reserve Fund to 15 per cent of assets at risk, which ensures the bank has all of the resources available to operate in a volatile environment. In the normal course of events, the bank would be profitable, enabling the Government to receive future dividends. From 2014-15 to 2017-18 expenses in the general public services function are estimated to remain relatively stable;

- **defence** — the increase in expenses from 2014-15 to 2017-18 reflects the Government's commitment to recapitalise Defence and put its funding back on an achievable and realistic growth path towards 2 per cent as a share of GDP by 2023-24. The increase is partially offset by the Government shifting funding within the Defence budget away from expenses in favour of capital expenditure, to improve defence capability;

- **education** — the increase in expenses from 2014-15 to 2017-18 largely reflects the Government's *Students First* school education policy. Further information on *Students First* can be found in Budget Paper No. 2, *Budget Measures* and the *Mid-Year Economic and Fiscal Outlook 2013-14*;

- **health** — the increase in expenses from 2014-15 to 2017-18 is driven by a range of programmes within the Medical Services and Benefits, Pharmaceutical Benefits and Services and Assistance to the States for public hospitals sub-functions. Higher demand for health services, and a growing and ageing population, continue to be significant drivers of increasing health costs;

- **social security and welfare** — the increase in expenses from 2014-15 to 2017-18 are largely due to an ageing population with more people accessing age, disability and carer payments and residential and home care together with implementation of the National Disability Insurance Scheme to support people with a significant and permanent disability;

- **housing and community amenities** — the decrease in expenses between 2013-14 and 2014-15 is primarily due to the termination of various programmes as part of the abolition of the carbon tax, including the Jobs and Competitiveness Programme, Energy Security Fund and the Biodiversity Fund;

- **transport and communication** — the fluctuating profile of expenses from 2014-15 to 2017-18 are largely driven by infrastructure projects within the Rail Transport and Road Transport sub-functions where the value of projects funded varies year on year, and payments correspond to project timelines; and

- **other purposes** — the increase in expenses from 2014-15 to 2017-18 primarily reflects growing general revenue assistance payments (largely GST) to be made to the States and Territories, increasing public debt interest costs 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 2014-15. Further details of spending trends against all functions including movements in expenses from 2013-14 to 2014-15 are set out under individual function headings.

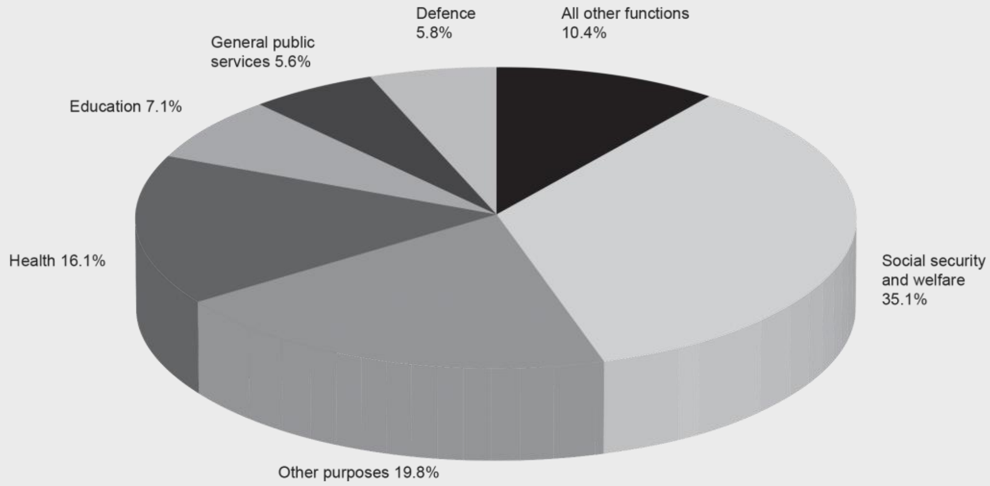
Box 1: Where does government spending go in 2014-15?

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 2014-15



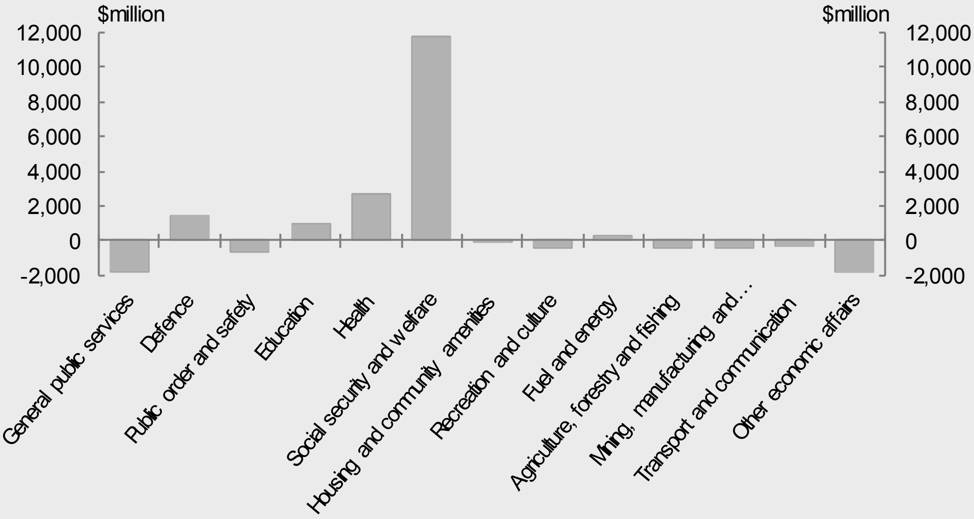
The estimates presented in the chart above are explained in greater detail under each individual function in the following pages.

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 and flexible aged care programmes, with demographic factors resulting in an increase in the number of people receiving these payments. Another driver of growth is the implementation of the National Disability Insurance Scheme.

A number of major health programmes will continue to see expenditure growth, including the MBS, the Private Health Insurance Rebate, and payments to the States and Territories for public hospital services. 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.

Chart 3: Total real growth by function — 2014-15 to 2017-18[(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.

Programme expenses

Table 3.1 reports the top 20 expense programmes in the 2014-15 financial year. These programmes represent approximately two thirds of total expenses in that year. More than half of the top 20 expense programmes provide financial assistance or services to seniors, families, people with a disability, students, carers and the unemployed.

Table 3.1: Top 20 programmes by expenses in 2014-15

		Estimates			Projections	
		2013-14	2014-15	2015-16	2016-17	2017-18
Programme	Function	$m	$m	$m	$m	$m
Revenue assistance to the States and Territories	Other purposes	52,056	54,861	58,165	61,598	64,909
Income support for seniors	SSW	39,501	42,085	44,658	47,583	49,665
Medicare services	Health	19,334	20,317	20,176	21,480	22,647
Family tax benefit	SSW	20,125	19,270	17,645	17,650	16,861
Income Support for People with Disability	SSW	16,098	16,891	17,354	17,940	18,500
Assistance to the States for public hospitals(a)	Health	13,845	15,116	16,551	18,095	18,872
Job seeker income support	SSW	10,226	10,233	10,571	10,687	10,610
Residential and flexible care	SSW	8,978	9,547	10,065	10,610	11,244
Pharmaceuticals and pharmaceutical services	Health	9,455	9,445	9,607	10,110	10,467
Non government schools – national support	Education	8,764	9,260	9,957	10,685	11,277
Income support for carers	SSW	6,983	7,631	8,266	9,000	9,769
Public sector superannuation(b)	Other purposes; General public services	8,225	7,549	7,696	7,847	8,007
Commonwealth Grants Scheme	Education	6,222	6,479	6,566	6,583	6,709
Private health insurance	Health	5,997	6,302	6,565	6,873	7,187
Fuel tax credits scheme	Fuel and energy	5,823	6,270	6,822	7,211	7,615
Management of Capability Acquisition	Defence	4,268	6,225	6,781	6,205	7,373
Army capabilities	Defence	5,762	6,031	6,327	6,246	6,319
Management of capability sustainment	Defence	5,366	5,939	6,244	6,531	6,841
Parents' income support	SSW	5,526	5,341	5,392	5,408	5,389
Government Schools National Support	Education	2,408	5,114	5,689	6,348	6,872
Sub-total		**254,962**	**269,906**	**281,097**	**294,690**	**307,133**
Other programmes		160,332	144,939	150,021	159,116	168,314
Total expenses		**415,294**	**414,845**	**431,118**	**453,806**	**475,447**

(a) Estimates for the Assistance to the States for healthcare services programme have moved to the Assistance to the States for public hospitals programme starting 2017-18.
(b) This programme is a combination of the public sector superannuation nominal interest and benefits programmes.

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	
	2013-14	2014-15	2015-16	2016-17	2017-18
	$m	$m	$m	$m	$m
Legislative and executive affairs	1,334	1,191	1,015	1,222	1,045
Financial and fiscal affairs	17,652	8,513	8,585	8,797	8,799
Foreign affairs and economic aid	6,060	6,299	6,125	6,704	6,733
General research	2,724	2,651	2,554	2,343	2,387
General services	714	821	757	773	797
Government superannuation benefits	5,667	3,709	3,715	3,516	3,290
Total general public services	**34,151**	**23,185**	**22,752**	**23,357**	**23,051**

Total general public services expenses are estimated to decrease by 33.6 per cent in real terms from 2013-14 to 2014-15, and decrease by 7.7 per cent in real terms over the period 2014-15 to 2017-18.

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 election in 2016-17 and costs incurred by the Department of the Prime Minister and Cabinet due to Australia hosting the Group of 20 in 2014.

Expenses in the **financial and fiscal affairs** sub-function are expected to decrease from 2013-14 to 2014-15, primarily due to a one-off grant provided to the Reserve Bank of Australia. Over the forward estimates, bad and doubtful debts expenses are expected to increase in line with the normal growth in taxation revenue over the forward estimates.

The fall in expenses from 2013-14 to 2014-15 in the **government superannuation benefits** sub-function reflects the use of different discount rates. The superannuation expenses for 2013-14 apply a discount rate based on long-term government bonds at the commencement of the financial year (4.3 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).

Table 4.1: Trends in the major components of foreign affairs and economic aid sub-function expenses

	Estimates			Projections	
	2013-14	2014-15	2015-16	2016-17	2017-18
	$m	$m	$m	$m	$m
Official development assistance(a)(b)	4,375	4,530	4,458	5,046	5,104
Africa, South and Central Asia, Middle East and other	881	1,131	1,081	1,124	1,440
East Asia	1,022	1,063	1,091	1,118	1,145
PNG and Pacific	882	967	1,017	1,045	1,082
Emergency, humanitarian and refugee programmes	264	339	350	362	374
UN, Commonwealth and other international organisations	369	344	343	421	425
Multilateral replenishments	265	118	-	377	13
NGO, Volunteer and community programmes	199	204	209	214	219
Programme Support(c)	362	240	237	252	271
International agricultural research and development	131	124	130	133	135
International police assistance	279	259	228	213	150
Passport services	239	253	263	256	258
Diplomacy(d)	759	854	766	745	760
Payments to international organisations	300	299	299	303	309
Consular services	66	75	74	74	74
Finance and insurance services for Australian exporters and investors	24	22	20	15	17
Other	18	7	17	52	61
Total	**6,060**	**6,299**	**6,125**	**6,704**	**6,733**

(a) The difference between these figures and the Government's ODA budget is partly due to the way replenishments are recognised in accrual terms when initial commitments are made. However, international reporting of ODA is in cash terms and reflects 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 programmes or functions.

(c) Programme Support includes departmental expenses of administering ODA for the Department of Foreign Affairs and Trade.

(d) Diplomacy includes Departmental expenditure for the Department of Foreign Affairs and Trade's Operations, Security and IT, overseas property and international climate change engagement.

Box 3: Official Development Assistance

The Government will maintain official development assistance (ODA) spending at its nominal 2013-14 level of $5.0 billion in each of 2014-15 and 2015-16. From 2016-17 ODA will grow in line with the Consumer Price Index.

Table 4.2: Official development assistance profile

	Estimates			Projections	
	2013-14	2014-15	2015-16	2016-17	2017-18
	$m	$m	$m	$m	$m
Official development assistance					
- total spending estimate	5,032	5,032	5,034	5,160	5,289

ODA spending reported internationally differs from the reporting in Table 4.1 due to some ODA eligible activities of government departments outside of the Foreign Affairs Portfolio being reported in other functions, and due to accounting differences in the treatment of investments and loans and reflects the timing of actual cash payments.

Total expenses under the **foreign affairs and economic aid** sub-function are expected to increase by 1.7 per cent in real terms from 2013-14 to 2014-15 and are forecast to decrease by 0.7 per cent in real terms across the forward years from 2014-15.

This decrease is due to the Government's decision to maintain official development assistance (ODA) expenditure at 2013-14 levels to 2015-16 with funding to grow in line with Consumer Price Index (CPI) from 2016-17 onwards. Budget Paper No. 2, *Budget Measures 2014-15,* contains further details on the Government's revision to the growth profile for ODA (see Box 3).

The **general research** sub-function incorporates expenses incurred by the Commonwealth Scientific and Industrial Research Organisation (CSIRO), the Australian Nuclear Science and Technology Organisation (ANSTO), the Australian Institute of Marine Science (AIMS) and the Australian Research Council (ARC).

Total expenses under this sub-function are expected to decrease in real terms by 4.8 per cent from 2013-14 to 2014-15 and by 16.4 per cent across the forward estimates from 2014-15. This decrease is driven by the completion of a number of one-off projects funded under the Education Investment Fund, and the measure *Science and Research Agencies — reduced funding*.

The table below sets out the major components of general research sub-function expenses.

Table 4.3: Trends in the major components of general research sub-function expenses

	Estimates			Projections	
	2013-14	2014-15	2015-16	2016-17	2017-18
	$m	$m	$m	$m	$m
National research flagships, science and services	1,059	1,024	1,010	1,003	1,025
Discovery - research and research training	559	551	519	495	523
Linkage - cross sector research partnerships	330	327	278	266	273
Science and technology solutions	284	290	283	279	275
National Research Infrastructure - national facilities and collections	111	143	150	164	164
Other	382	316	315	135	128
Total	**2,724**	**2,651**	**2,554**	**2,343**	**2,387**

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	
	2013-14	2014-15	2015-16	2016-17	2017-18
	$m	$m	$m	$m	$m
Defence	22,840	24,197	25,249	25,719	27,632
Total defence	**22,840**	**24,197**	**25,249**	**25,719**	**27,632**

Total expenses for the defence function are estimated to increase by 3.7 per cent in real terms from 2013-14 to 2014-15, and increase by 6.1 per cent in real terms over the period 2014-15 to 2017-18. While the increase in expenses from 2014-15 to 2017-18 in part reflects new policy decisions which provide defence additional funding, this is partially offset by a shift in funding within the Defence budget away from expenses in favour of capital expenditure, to improve defence capability (see Box 4 showing expenses and net capital investment).

To this end, the Government will achieve savings of $1.2 billion over four years through various initiatives to increase efficiency and reduce spending in lower priority areas. The savings will be re-invested in capital to support Defence capability.

The funding growth does not include the full cost of operations beyond 2014-15 as such funding is considered on a year-by-year basis and is subject to future Government decisions. In 2014-15, additional funding of $194.0 million will be provided to support Defence operations in the Middle East and in protecting Australia's borders.

Box 4: Defence funding

Total Defence spending is estimated to increase by $4.0 billion (or 6.4 per cent in real terms) between 2014-15 and 2017-18. 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	
	2013-14	2014-15	2015-16	2016-17	2017-18
	$m	$m	$m	$m	$m
Expenses	22,840	24,197	25,249	25,719	27,632
Net capital investment	2,825	3,315	3,219	2,883	3,892
Total defence spending	25,665	27,512	28,468	28,602	31,524
Nominal growth (per cent)	11.7%	7.2%	3.5%	0.5%	10.2%
Real growth (per cent)	0.7%	4.9%	1.0%	-2.0%	7.5%

Capital funding in the defence function is applied towards the acquisition of military equipment, enabling services 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.

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	
	2013-14	2014-15	2015-16	2016-17	2017-18
	$m	$m	$m	$m	$m
Courts and legal services	1,080	1,043	957	871	882
Other public order and safety	3,366	3,346	3,141	3,184	3,168
Total public order and safety	**4,446**	**4,389**	**4,098**	**4,054**	**4,051**

Total expenses for the **public order and safety function** are estimated to decrease by 3.4 per cent in real terms from 2013-14 to 2014-15, and by 14.3 per cent in real terms over the period 2014-15 to 2017-18.

Expenses within the **courts and legal services sub-function** are expected to decrease by 21.5 per cent in real terms from 2014-15 over the forward years, and by 5.5 per cent in real terms from 2013-14 to 2014-15. This is largely due to the expected completion of the three established Royal Commissions over the next three years.

Expenses within the **other public order and safety sub-function** are expected to decrease by 12.1 per cent in real terms from 2014-15 over the forward years, and by 2.7 per cent in real terms from 2013-14 to 2014-15. This is largely due to the cessation of a number of temporary measures as well as recent efficiency measures which have reduced departmental resourcing. Further information is contained in the measures *Australian Federal Police officers – cessation of recruitment* and *Australian Federal Police – savings from efficiencies* (see Budget Paper No. 2, *Budget Measures 2014-15).* This impact has been partially offset by additional funding provided to the Australian Customs and Border Protection Service to reform border protection services.

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	
	2013-14	2014-15	2015-16	2016-17	2017-18
	$m	$m	$m	$m	$m
Higher education	8,970	9,223	9,274	9,282	9,465
Vocational and other education	1,766	1,824	1,837	2,003	1,515
Schools	13,567	14,374	15,646	17,032	18,149
Non-government schools	8,764	9,260	9,957	10,685	11,277
Government schools	4,803	5,114	5,689	6,348	6,872
School education - specific funding	1,151	734	282	194	163
Student assistance	3,998	3,338	3,110	3,264	3,431
General administration	255	61	56	67	65
Total education	**29,707**	**29,553**	**30,206**	**31,843**	**32,788**

Total education expenses are expected to decrease by 2.7 per cent in real terms between 2013-14 and 2014-15 and increase by 3.1 per cent in real terms from 2014-15 to 2017-18.

The major components of the higher education sub-function are set out in Table 7.1.

Table 7.1: Trends in the major components of the higher education sub-function expenses

	Estimates			Projections	
	2013-14	2014-15	2015-16	2016-17	2017-18
	$m	$m	$m	$m	$m
Commonwealth Grant Scheme	6,222	6,479	6,566	6,583	6,709
Investment in Higher Education Research	1,726	1,756	1,800	1,852	1,898
Higher Education Support	536	576	492	427	433
University Superannuation Programme(a)	289	324	332	340	349
Other	198	88	84	79	76
Total	**8,970**	**9,223**	**9,274**	**9,282**	**9,465**

(a) This does not include the 2014-15 Budget measure which is not for publication.

Expenses under the **higher education** sub-function are expected to increase by 0.6 per cent in real terms from 2013-14 to 2014-15, and decrease by 4.7 per cent in real terms from 2014-15 to 2017-18. The increase in expenses from 2013-14 to 2014-15 is due to growth in projected enrolments. The expected decrease from 2014-15 is mainly due to the implementation of the *Expanding opportunity – expansion of the demand driven system and sharing the cost fairly* measure from 2016, which allows higher education providers to set their own course fees and a reduction in subsidies provided under the Commonwealth Grant Scheme.

Expenses under the **vocational and other education** sub-function are estimated to increase by 1.1 per cent in real terms between 2013-14 and 2014-15, and decrease by 22.9 per cent in real terms from 2014-15 to 2017-18. The forecast decline in expenses over the forward estimates is due to the conclusion of funding under the Skills Reform National Partnership Agreement in 2016-17.

Aggregate school funding expenses are expected to increase by 3.7 per cent in real terms between 2013-14 and 2014-15 and by 17.3 per cent in real terms from 2014-15 to 2017-18 reflecting the Government's *Students First* school education policy. Slower growth in 2017-18 reflects the Government's commitment to put school funding on a more sustainable footing. From 2018, school funding will be indexed by the Consumer Price Index, with an allowance for changes in enrolments, to maintain the real level of Australian Government school funding.

Expenses in the **schools — non-government schools** sub-function are expected to increase by 3.4 per cent in real terms between 2013-14 and 2014-15 and by 13.1 per cent in real terms from 2014-15 to 2017-18. Expenses under the **schools — government schools** sub-function are expected to increase by 4.2 per cent in real terms between 2013-14 and 2014-15 and by 24.8 per cent in real terms from 2014-15 to 2017-18.

Expenses under the **student assistance** sub-function are expected to decrease by 18.3 per cent in real terms from 2013-14 to 2014-15, and by 4.5 per cent in real terms from 2014-15 to 2017-18. The decrease in 2014-15 is primarily due to recent changes in tertiary student assistance including the removal of grandfathering of recipients of the Student Start-up Scholarship from 1 July 2015.

Expenses under the Higher Education Loan Program (HELP) mainly reflect the estimated cost to the Government of providing concessional loans. These expenses are recorded when loans are issued and are based on projections of future interest rates. These expenses are expected to reduce in 2014-15 and be removed from 2015-16 onwards as a result of the Government's decision to change the indexation arrangements for debts from the Consumer Price Index to a rate equivalent to the yields on 10 year Australian Government bonds from 1 June 2016. The remaining expenses relate to the write down of debts.

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; Aboriginal and Torres Strait Islander health programmes; Mental Health services; and health workforce initiatives.

In addition to these expenses, the Government is creating a Medical Research Future Fund (MRFF) from 1 January 2015 to provide a sustainable and growing funding stream to be invested in additional medical research in the medium to long term.

Table 8: Summary of expenses — health

	Estimates			Projections	
	2013-14	2014-15	2015-16	2016-17	2017-18
	$m	$m	$m	$m	$m
Medical services and benefits	26,390	28,227	28,384	29,982	31,442
Pharmaceutical benefits and services	10,519	10,547	10,693	11,209	11,589
Assistance to the States for public hospitals(a)	13,845	15,116	16,551	18,095	18,872
Hospital services(b)	2,844	1,950	1,777	1,686	1,705
Health services	6,839	7,109	6,794	6,749	7,040
General administration	3,274	3,214	3,254	3,257	3,300
Aboriginal and Torres Strait Islander health	800	730	749	818	908
Total health	**64,511**	**66,892**	**68,203**	**71,797**	**74,856**

(a) The name of this sub-function has changed from the 'National Health Reform Payment' to the 'Assistance to the States for public hospitals'.

(b) 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 former National Health Reform Payment sub-function (now called the 'Assistance to the States for public hospitals' sub-function).

Total expenses for this function are estimated to increase by 1.5 per cent in real terms between 2013-14 and 2014-15. Total expenses are estimated to increase by 3.9 per cent in real terms from 2014-15 to 2017-18. This expected growth is driven by higher demand for 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 42.2 per cent of total estimated health expenses for 2014-15. Medicare expenses are the major driver of growth in this sub-function. Expenses for Medicare are expected to increase by 2.8 per cent in real terms between 2013-14 and 2014-15. The fall in expenses of 3.1 per cent in real terms from 2014-15 to 2015-16 largely reflects the impact of the Government's decisions to strengthen and improve the sustainability of Medicare. Expenses are still expected to grow by 3.5 per cent in real terms over the period 2014-15 to 2017-18, as a result of ongoing growth in the use of medical services and in the use of high value items on the Medicare Benefits Schedule.

Expenses for PHIR are expected to increase by 2.8 per cent in real terms between 2013-14 and 2014-15, and are expected to grow by 5.9 per cent in real terms over the period 2014-15 to 2017-18 due to forecast continued take up of private health insurance policies. The proportion of Australians with some form of private health insurance is now around 55 per cent, providing a high level of access to private health services and taking pressure off the public system.

Expenses for dental services are expected to grow by 3.0 per cent in real terms over the period 2014-15 to 2017-18, due to the expansion of dental services in the public dental system. Expenses for this activity had not previously been identified separately, but were included in the Medicare Services component of this sub-function.

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	
	2013-14	2014-15	2015-16	2016-17	2017-18
	$m	$m	$m	$m	$m
Medicare services	19,334	20,317	20,176	21,480	22,647
Private health insurance	5,997	6,302	6,565	6,873	7,187
General medical consultations and services	902	879	860	845	832
Dental services(a)	0	600	620	638	665
Other	157	129	163	147	111
Total	**26,390**	**28,227**	**28,384**	**29,982**	**31,442**

(a) Dental services sub function data has previously been included as part of Medicare Services and has not been separately identified.

The **pharmaceutical benefits and services** sub-function is expected to decrease by 1.9 per cent in real terms between 2013-14 and 2014-15 due largely to the current price disclosure policy which requires manufacturers to disclose to the Government the actual price at which they sell medicines to wholesalers and pharmacies. Expenses are expected to grow by 2.1 per cent in real terms over the period 2014-15 to 2017-18. Estimates for the Pharmaceutical Benefits Scheme (PBS) do not include the potential listing of new drugs or price adjustments to existing drugs, which typically increase spending above original estimates.

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	
	2013-14	2014-15	2015-16	2016-17	2017-18
	$m	$m	$m	$m	$m
Pharmaceutical benefits (concessional)(a)	5,641	5,512	5,564	5,852	6,040
Pharmaceutical benefits (general)(b)	1,410	1,378	1,391	1,463	1,510
Pharmaceutical benefits (highly specialised and other drugs dispensed in hospitals)(c)	2,208	2,358	2,452	2,595	2,715
Pharmaceutical benefits - targeted medicine programmes(d)	138	148	154	158	163
Immunisation	156	154	159	160	164
Veterans' pharmaceutical benefits	406	390	368	376	390
Payments for wholesalers and pharmacy programmes	368	406	402	401	401
Other	192	201	204	204	206
Total	**10,519**	**10,547**	**10,693**	**11,209**	**11,589**

(a) Concessional benefits are those provided through community pharmacies for Pensioner Concession Card holders, Health Care Card holders and Veterans with a White, Gold or Orange card.
(b) General benefits are those provided through community pharmacies for people without concession cards.
(c) Highly specialised drugs are subsidised by the Australian Government through hospitals.
(d) Targeted medicine programmes include the life saving drugs programme and Herceptin Programme.

The Australian Government's contribution to public hospital funding is reported through the **Assistance to the States for public hospitals** sub-function. Hospital services covered by this sub-function include all admitted services, programmes that deliver hospital services in the home and emergency department services. The increase in expenses of 6.8 per cent in real terms from 2013-14 to 2014-15 reflects the Commonwealth's commitment to provide additional hospital funding from 2014-15 under current agreements with the States. The increase in expenses of 14.0 per cent in real terms over the period 2014-15 to 2016-17 largely reflects growth in the volume of services and changes in the efficient price of those services. The rate of growth in the expenses slows to around 1.8 per cent in real terms between 2016-17 and 2017-18 due to the Government's decision to put hospital funding on a more sustainable footing and to index hospital funding from 1 July 2017 by a combination of population growth and the Consumer Price Index.

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. Expenditure growth for this sub-function is expected to fall by 32.9 per cent in real terms between 2013-14 and 2014-15, and fall by 18.8 per cent in real terms over the period 2014-15 to 2017-18. This significant fall is primarily due to the conclusion of elements of the National Partnership Agreement on Improving Public Hospital Services at the end of 2013-14, and the cessation of reward funding from 1 July 2015.

Expenses in the **health services** sub-function include Australian Government expenses associated with the delivery of population health, mental health, hearing services, blood and blood products, research and other allied health services, and health infrastructure funding through the Health and Hospitals Fund (HHF), which will cease operation on 31 December 2014, with uncommitted funds being transferred to the Medical Research Future Fund. From 2013-14 to 2014-15 expenditure is expected to increase by 1.7 per cent in real terms, and between 2014-15 and 2017-18 expenditure is expected to decrease by 8.0 per cent in real terms. This largely reflects projects funded from the HHF nearing completion. The reduction in Health Infrastructure is partially offset by increased expenditure on the national blood agreement, reflecting both greater costs and demand for blood products, and the expenditure of earnings from the Medical Research Future Fund to support research.

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	
	2013-14	2014-15	2015-16	2016-17	2017-18
	$m	$m	$m	$m	$m
National blood agreement management	1,127	1,132	1,205	1,280	1,362
Health infrastructure	422	865	394	82	17
Blood and organ donation	732	737	783	833	884
Mental health	529	643	708	707	725
Other	4,028	3,731	3,704	3,847	4,051
Total	**6,839**	**7,109**	**6,794**	**6,749**	**7,040**

The **general administration — health** 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 3.9 per cent between 2013-14 and 2014-15, and to fall in real terms by 4.6 per cent over the period 2014-15 to 2017-18. This is a result of the recent measures the Government has undertaken to minimise the growth in programme delivery costs such as improving the efficiency of health workforce development and rebuilding general practice education and training.

Expenses in the **Aboriginal and Torres Strait Islander health** sub-function is expected to decrease by 10.7 per cent in real terms from 2013-14 to 2014-15, largely due to efficiencies in Indigenous health programme funding. Expenses are expected to increase by 15.5 per cent in real terms over the period 2014-15 to 2017-18 as Aboriginal and Torres Strait Islander people across Australia continue to access Indigenous-specific services. Substantial investments in Indigenous health also occur through other health sub-functions.

Box 5: Medical Research Future Fund

In addition to expenditure on the health function, the Government will create a Medical Research Future Fund (MRFF) from 1 January 2015 to provide a sustainable and growing funding stream to be spent on further medical research in the medium to long term. All savings from health expenditure which have been announced in the 2014-15 Budget and the current uncommitted balance of the Health and Hospitals Fund (HHF) will be reinvested in the MRFF until its balance reaches $20 billion, which is estimated to occur in 2019-20. The capital and any ongoing capital gains of the MRFF will be preserved in perpetuity.

The net interest earnings of the fund will be drawn down in the year after they are earned and used to fund critical medical research. This additional expenditure will grow from $20 million in 2015-16 to provide an ongoing funding stream of around $1 billion per year from 2022-23.

Table 8.4: Medical Research Future Fund

	Estimates			Projections	
	2013-14	**2014-15**	**2015-16**	**2016-17**	**2017-18**
	$m	**$m**	**$m**	**$m**	**$m**
Savings invested in the MRFF	0	1,039(a)	2,680	2,884	3,938
Uncommitted balance from the HHF invested in the MRFF		992			
Total investments each year in the MRFF	**0**	**2,032**	**2,680**	**2,884**	**3,938**
Net interest earnings		20	77	179	304
Capital gains		2	9	20	35
Additional funding for Medical Research(b)			-20	-77	-179
Cumulative Balance of the MRFF(c)	**0**	**2,054**	**4,800**	**7,807**	**11,905**

(a) Includes $76 million in 2013-14 savings which will be invested in the MRFF after it is established on 1 January 2015.
(b) The net interest earnings of the MRFF are paid out in the year after they are earned to fund medical research. This expenditure is included in the health function.
(c) The estimated cumulative balance includes capital gains in addition to savings.

Table 8.5: Expenditure and investments in health

	Estimates			Projections	
	2013-14	**2014-15**	**2015-16**	**2016-17**	**2017-18**
	$m	**$m**	**$m**	**$m**	**$m**
Health function expenditure	64,511	66,892	68,203	71,797	74,856
Savings invested in the MRFF	0	1,039	2,680	2,884	3,938
Total expenditure and investments in health	**64,511**	**67,931**	**70,883**	**74,681**	**78,794**

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	
	2013-14	2014-15	2015-16	2016-17	2017-18
	$m	$m	$m	$m	$m
Assistance to the aged	54,984	57,967	60,791	64,612	67,718
Assistance to veterans and dependants	6,984	6,933	6,783	6,628	6,356
Assistance to people with disabilities	26,035	27,961	29,802	34,431	42,910
Assistance to families with children	36,131	35,540	34,352	35,022	35,005
Assistance to the unemployed and the sick	10,238	10,233	10,571	10,687	10,610
Other welfare programmes	735	735	843	918	1,003
Assistance for Indigenous Australians nec	1,910	2,161	2,162	2,155	2,107
General administration	3,552	4,242	3,965	3,918	3,876
Total social security and welfare	**140,569**	**145,773**	**149,269**	**158,370**	**169,585**

Expenses in the social security and welfare function are estimated to grow by 1.5 per cent in real terms from 2013-14 to 2014-15 and by 8.1 per cent in real terms from 2014-15 to 2017-18.

The sub-functions contributing most to the growth are assistance to the aged, at 8.5 per cent and assistance to people with disabilities at 42.5 per cent in real terms over the period 2014-15 to 2017-18.

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 4.2 per cent in real terms from 2013-14 to 2014-15 and 9.6 per cent in real terms from 2014-15 to 2017-18 due to demographic changes. Real growth in expenses is expected to slow to 2.2 per cent from 2016-17 to 2017-18 due to the impact of 2014-15 Budget measures including changes to indexation and deeming arrangements, which take effect in 2017-18.

Also contributing to growth from 2014-15 to 2017-18 is an increase in expenses associated with home care, home support and residential and flexible aged care programmes, largely reflecting demographic factors.

The reduction in National Partnership Payments — Assistance to the Aged from 2014-15 to 2017-18 reflects the expiry of National Partnership Agreements with Western Australia and Victoria on 30 June 2015. All other States and Territories transferred funding and policy responsibility for aged care to the Australian Government from 1 July 2012, with this funding now included in the Home Support

Programme. Victoria has now also agreed to transfer these responsibilities, with arrangements still under negotiation.

The estimated 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	
	2013-14	2014-15	2015-16	2016-17	2017-18
	$m	$m	$m	$m	$m
Income Support for Seniors	39,501	42,085	44,658	47,583	49,665
Residential and flexible care	8,978	9,547	10,065	10,610	11,244
Veterans' Community Care and Support	1,615	1,760	1,865	1,986	2,130
Home Support	1,477	1,641	1,716	1,781	1,853
Home Care	1,228	1,365	1,541	1,736	1,942
National Partnership Payments - Assistance to the Aged	841	586	4	0	0
Mature Age Income Support	487	422	342	272	226
Allowances, concessions and services for seniors	299	95	104	113	117
Ageing and service improvement	189	175	203	233	240
Workforce and quality	146	111	123	126	122
Access and information	126	137	134	137	143
Other	96	42	37	35	36
Total	**54,984**	**57,967**	**60,791**	**64,612**	**67,718**

Expenses for the **assistance to veterans and dependants sub-function** are estimated to fall over the forward estimates, predominantly reflecting an expected natural decline in the number of beneficiaries.

The increase in projected expenses in the **assistance to people with disabilities sub-function** from 2013-14 across the forward estimates is primarily driven by the National Disability Insurance Scheme (NDIS).

Expenses for the NDIS are estimated to grow substantially in real terms across the forward estimates, reflecting the increase in numbers of people with disabilities entering the scheme as it moves towards full coverage across all jurisdictions. Of the total $17.4 billion in expenses over the forward estimates, the Commonwealth is contributing funding of $8.4 billion ($408 million in 2014-15, $614 million in 2015-16, $2.1 billion in 2016-17 and $5.2 billion in 2017-18), with the remainder contributed by the States and Territories. Information on State and Territory contributions to the NDIS and related expenses is provided in Statement 3 of Budget Paper No. 1.

Expenses for the Disability Support Pension (DSP) are estimated to grow by 2.7 per cent in real terms from 2013-14 to 2014-15 and 1.7 per cent in real terms from 2014-15 to 2017-18 due to increases in payment rates. Growth is expected to slow from 2017-18 due to changes to indexation arrangements that take effect from that year. The use of DSP impairment tables underpins low growth in DSP recipient numbers, with an estimated average growth of 0.25 per cent per annum over the forward estimates.

Expenses for income support for carers are estimated to grow by 6.9 per cent in real terms from 2013-14 to 2014-15 and 18.9 per cent in real terms from 2014-15 to 2017-18, largely as a result of growth in Carer Payment and Carer Allowance (adult) payments predominantly driven by the increasing number of frail aged Australians receiving care at home.

The major components of the assistance to people with disabilities sub-function are outlined below in Table 9.2.

Table 9.2: Trends in the major components of assistance to people with disabilities sub-function expenses

	Estimates			Projections	
	2013-14	2014-15	2015-16	2016-17	2017-18
	$m	$m	$m	$m	$m
Income Support for People with Disability	16,098	16,891	17,354	17,940	18,500
Income Support for Carers	6,983	7,631	8,266	9,000	9,769
Assistance to the States for Disability Services	1,334	1,398	1,455	1,514	1,580
Disability and Carers(a)	1,086	837	987	1,076	1,077
National Disability Insurance Scheme(b)	295	673	1,105	4,196	11,161
National Partnership Payments - Assistance to People with Disabilities	7	16	118	189	298
Other	232	515	517	516	525
Total	**26,035**	**27,961**	**29,802**	**34,431**	**42,910**

(a) The Services and Support for People with a Disability and Disability Employment Services programmes are now being reported under the Disability and Carers programme.
(b) Includes both Commonwealth and State contributions to the cost of the National Disability Insurance Agency, which is a Commonwealth agency in the General Government Sector.

The main components of the **assistance to families with children sub-function** are family tax benefit payments, child care fee assistance, income support to parents and paid parental leave.

Growth in child care fee assistance expenses is being driven by increases in child care costs flowing through to increased payments under the Child Care Rebate and the growing number of families accessing fee assistance for child care, including the Child Care Benefit. These factors are estimated to result in growth in child care fee assistance expenses of 9.9 per cent in real terms from 2013-14 to 2014-15 and 18.5 per cent in real terms from 2014-15 to 2017-18.

Family Tax Benefit (FTB) expenses are estimated to decline by 6.3 per cent in real terms from 2013-14 to 2014-15 and by 18.7 per cent in real terms from 2014-15 to 2017-18.

Reductions from 2014-15 reflect the impact of the 2014-15 Budget measures to improve the targeting and sustainability of FTB payments.

The Baby Bonus payment closed on 1 March 2014 resulting in a reduction in expenses between 2013-14 and 2014-15 in the current Paid Parental Leave programme, formerly part of the Parent and Baby Payments programme. A provision has been made for the new Paid Parental Leave Scheme in the Contingency Reserve.

The major components of the assistance to families with children sub-function are set out in Table 9.3.

Table 9.3: Trends in the major components of assistance to families with children sub-function expenses

	Estimates			Projections	
	2013-14	2014-15	2015-16	2016-17	2017-18
	$m	$m	$m	$m	$m
Family tax benefit	20,125	19,270	17,645	17,650	16,861
Parents income support	5,526	5,341	5,392	5,408	5,389
Child Care Fee Assistance(a)	5,612	6,305	6,819	7,412	8,041
Child Care Benefit	2,360	3,141	3,294	3,494	3,722
Child Care Rebate	2,225	3,164	3,525	3,918	4,319
Child Care Fee Assistance	1,027	0	0	0	0
Paid Parental Leave(b)	2,174	1,921	1,995	2,069	2,148
Child support	1,414	1,451	1,482	1,516	1,553
Support for the child care system	663	665	478	432	462
Families and Children(c)	153	246	219	210	214
Family relationship services	161	166	169	172	183
Child Payments(b)	112	132	134	136	139
National Partnership Payments - child care	97	22	nfp	nfp	nfp
Other	94	23	19	17	15
Total	**36,131**	**35,540**	**34,352**	**35,022**	**35,005**

(a) Since the machinery of government changes in 2013, Child Care Benefit and Child Care Rebate are reported as separate programmes in Budget documentation.
(b) The Parent and Baby payments programme is now being reported under the Paid Parental Leave and the Child Payments programmes.
(c) The Family support programme is now reported under the Families and Children programme.

Expenses for the **assistance to the unemployed and the sick sub-function** are estimated to decrease by 2.2 per cent in real terms from 2013-14 to 2014-15, and decrease by 3.7 per cent in real terms from 2014-15 to 2017-18. The decrease to expenses is mainly due to government decisions in the 2014-15 Budget including stronger participation incentives for job seekers under 30 and an increase in the age of eligibility for Newstart Allowance from 22 to 25.

Expenses for the **assistance for Indigenous Australians not elsewhere classified (nec)** sub-function are estimated to increase by 10.7 per cent in real terms from 2013-14 to 2014-15. This increase in expenses from 2013-14 to 2014-15 reflects the Government's commitment to bring together Indigenous programmes with a focus on achieving improved education, employment and community safety outcomes for Indigenous Australians. This has resulted in activities previously identified under other sub-functions being reclassified under the **assistance for Indigenous Australians (nec)** sub-function. This includes expenses under the Indigenous Employment Programme and the Remote Jobs and Communities Programme, which were previously classified under the **labour market assistance to job seekers and industry** sub-function, and also the Indigenous Education (Targeted Assistance) Programme, which was previously classified under the **schools — non-government schools** and **schools — government schools** sub-functions.

From 2014-15 to 2017-18 funding remains relatively constant in nominal terms, but declines in real terms as a result of efficiencies achieved through programme consolidation.

Expenses for the **general administration sub-function** are estimated to increase slightly in 2014-15, and then decrease over the period 2015-16 to 2017-18 due mainly to administrative efficiencies generated within the Department of Human Services.

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 programmes, the expenses of Defence Housing Australia (DHA), and various regional development and environmental protection programmes.

Table 10: Summary of expenses — housing and community amenities

	Estimates			Projections	
	2013-14	2014-15	2015-16	2016-17	2017-18
	$m	$m	$m	$m	$m
Housing	3,284	3,231	3,133	3,405	3,498
Urban and regional development	578	695	697	521	431
Environment protection	4,521	910	1,072	1,100	1,176
Total housing and community amenities	**8,383**	**4,835**	**4,902**	**5,026**	**5,105**

Total expenses under the housing and community amenities function are estimated to decrease by 43.6 per cent in real terms from 2013-14 to 2014-15 due to a decrease in expenses in the **environment protection** sub-function, and to decrease further by 1.9 per cent in real terms over the period 2014-15 to 2017-18.

The **housing** sub-function contains initiatives relating to the Australian Government's contribution to the National Affordable Housing Specific Purpose Payment and related National Partnerships, provision of housing for the general public and people with special needs.

Expenses for this sub-function are estimated to decrease by 3.7 per cent in real terms from 2013-14 to 2014-15 and then increase by 0.6 per cent in real terms over the period to 2014-15 to 2017-18. Housing expenses are estimated to decline in real terms in 2015-16, before increasing from 2016-17, reflecting a re-profiling both of the National Partnership Agreement on Remote Indigenous Housing which brings expenses forward due to accelerated rates of construction and refurbishments, and of the National Rental Affordability Scheme which shifts expenses to later years, due to later than expected delivery dates of affordable rental dwellings.

The **urban and regional development** sub-function comprises regional development programmes and services to territories, including the Community Development Grants programme and the new National Stronger Regions Fund which will fund capital works projects in local communities. Expenses are expected to fluctuate over the forward estimates, consistent with the varying nature of the projects undertaken with payments to correspond to project milestones. Expenses are expected to peak in 2015-16 coinciding with the commencement of the National Stronger Regions Fund and significant estimated expenditure in the Community Development Grants programme.

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 decrease in expenses from 2013-14 to 2014-15 is primarily due to the termination of various programmes as part of the abolition of the carbon tax, including the Jobs and Competitiveness Programme, Energy Security Fund and the Biodiversity Fund. The increase in expenses after 2014-15 is primarily due to the implementation of the Emissions Reduction 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	
	2013-14	2014-15	2015-16	2016-17	2017-18
	$m	$m	$m	$m	$m
Broadcasting	1,539	1,549	1,570	1,554	1,588
Arts and cultural heritage	1,239	1,226	1,126	1,172	1,122
Sport and recreation	552	382	335	333	293
National estate and parks	395	355	330	326	340
Total recreation and culture	**3,725**	**3,512**	**3,360**	**3,385**	**3,343**

Total expenses under the **recreation and culture** function are estimated to decrease by 7.7 per cent in real terms from 2013-14 to 2014-15 and by 11.6 per cent in real terms over the period 2014-15 to 2017-18.

Expenses under the **broadcasting** sub-function are expected to fall by 4.8 per cent in real terms from 2014-15 through to 2017-18, primarily due to several 2013-14 Budget measures relating to the national broadcasters, such as the *ABC – Continuation of Enhanced News Services* measure, which terminate in 2015-16.

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	
	2013-14	2014-15	2015-16	2016-17	2017-18
	$m	$m	$m	$m	$m
ABC General operational activities	966	972	992	972	990
SBS television	257	250	248	248	257
Access to digital TV services	109	115	118	121	124
SBS digital transmission and distribution	78	85	83	82	83
ABC analog transmission	80	76	77	79	81
SBS Radio	41	43	43	43	45
Other	7	9	9	9	9
Total	**1,539**	**1,549**	**1,570**	**1,554**	**1,588**

Expenses under the **arts and cultural heritage** sub-function are estimated to decrease by 3.2 per cent in real terms from 2013-14 to 2014-15 and by 15.0 per cent over the period 2014-15 to 2017-18. This sub-function includes programmes which support funding for the arts and cultural institutions. The estimated decreases are due to the implementation of greater efficiencies, and arts-related savings measures, including the reduction from 2014-15 of uncommitted arts programme grants, as well as the cessation of measures from the 2011-12 Budget: *Enhancements from the review of the Australian independent screen production sector* and the *Contemporary music touring programme*; and the 2012-13 Budget: *Australian National Academy of Music — increased funding* and *Boosting music industry innovation and exports*.

Expenses under the **sport and recreation** sub-function are estimated to decrease by 32.3 per cent in real terms from 2013-14 to 2014-15 which primarily reflects a return to normal spending following the Government's one-off contribution to the Queensland Government in 2013-14 for permanent infrastructure for the 2018 Gold Coast Commonwealth Games. The completion of preparatory work on the Asian Football Cup and the termination of the 2014-15 Budget measures *Sporting Schools Initiative* on 30 June 2017 are the main reasons for the estimated decrease in expenses of 28.8 per cent in real terms over the period 2014-15 to 2017-18.

Expenses under the **national estate and parks** sub-function are estimated to decrease by 12.1 per cent in real terms from 2013-14 to 2014-15 and by 11.0 per cent in real terms over the period 2014-15 to 2017-18. The decrease from 2013-14 largely reflects a reduction in expenses for the Australian Antarctic Programme. The decline is partly a result of the completion of the initial life-extension works on the *Aurora Australis*, the multi-purpose icebreaking vessel which supports Australia's activities in Antarctica, in 2013-14 and the progressive completion of work on the procurement process for a new icebreaker. The further decline in expenses in 2015-16 relates, in part, to the scheduled termination of one component of the measure *Antarctica — maintaining Australia's presence*.

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 programmes to support the production or use of alternative fuels, including ethanol and biodiesel.

Table 12: Summary of expenses — fuel and energy

	Estimates			Projections	
	2013-14	2014-15	2015-16	2016-17	2017-18
	$m	$m	$m	$m	$m
Fuel and energy	7,047	7,058	7,172	7,439	7,836
Total fuel and energy	**7,047**	**7,058**	**7,172**	**7,439**	**7,836**

Fuel and energy expenses are estimated to decrease by 2.0 per cent in real terms from 2013-14 to 2014-15, and increase by 3.1 per cent in real terms over the period 2014-15 to 2017-18.

The major programme within this function is the Fuel Tax Credits Scheme which is expected to increase by 5.4 per cent in real terms from 2013-14 to 2014-15 and increase by 12.8 per cent in real terms from 2014-15 to 2017-18. This reflects the Government's decision to index fuel excise duties on diesel, petrol and other fuel products by the Consumer Price Index, and expected increases in claims by eligible businesses commensurate with higher diesel consumption, particularly in the mining industry.

The reduction in expenses under the resources related initiatives and management component from 2014-15 to 2017-18 reflects the Government's decision to reduce funding for the Carbon Capture and Storage Flagships programme and to abolish the Ethanol Production Grants programme on 30 June 2015.

The reduction in expenses under the energy related initiatives and management component from 2013-14 to 2014-15 is due to the termination of the *Coal Sector Jobs* package on 30 June 2014 (as part of the repeal of the carbon tax and associated measures), and the Government's decision to abolish the Australian Renewable Energy Agency (ARENA). The management of existing ARENA projects will be transferred to the Department of Industry. The fluctuation in expenses under this component from 2014-15 to 2017-18 is driven by the timing of project milestones for the existing ARENA projects.

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	
	2013-14	2014-15	2015-16	2016-17	2017-18
	$m	$m	$m	$m	$m
Fuel Tax Credits Scheme	5,823	6,270	6,822	7,211	7,615
Energy related initiatives and management	661	338	164	82	108
Resources related initiatives and management	209	228	100	56	20
Other	354	222	86	89	92
Total	**7,047**	**7,058**	**7,172**	**7,439**	**7,836**

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	
	2013-14	2014-15	2015-16	2016-17	2017-18
	$m	$m	$m	$m	$m
Wool industry	58	57	57	57	57
Grains industry	184	212	202	194	203
Dairy industry	53	53	54	54	56
Cattle, sheep and pig industry	182	182	183	185	186
Fishing, horticulture and other agriculture	272	283	293	288	282
General assistance not allocated to specific industries	26	26	27	28	28
Rural assistance	144	151	110	113	95
Natural resources development	1,016	1,126	1,280	1,064	993
General administration	695	663	663	661	666
Total agriculture, forestry and fishing	**2,629**	**2,752**	**2,868**	**2,642**	**2,565**

Total expenses under this function are estimated to increase by 2.4 per cent in real terms from 2013-14 to 2014-15, but decrease by 13.4 per cent in real terms over the period 2014-15 to 2017-18.

The decrease from 2014-15 is partly due to an estimated reduction in expenses within the **rural assistance** sub-function. Expenses under this sub-function are estimated to decrease by 41.2 per cent in real terms between 2014-15 and 2017-18, primarily due to the funding profile of the Carbon Farming Futures programme declining over the forward estimates. This is partially offset by an expected increase in expenses under the *Farm Household Allowance* due to unfavourable seasonal conditions in affected parts of Australia with a consequent forecast increase in assistance to be provided.

The majority of expenses under the **natural resources development** sub-function are related to water initiatives, comprising urban and rural programmes, including irrigation modernisation, recycling and stormwater capture. Funding for water purchasing is included under net capital investment. The increase in expenses under the water reform component from 2013-14 largely reflects the continuation of projects under the Sustainable Rural Water Use and Infrastructure Programme, peaking in 2015-16. The decrease in expenses from 2013-14 under the Other component reflects the progressive completion of projects under the Murray-Darling Basin Authority's Environmental Works and Measures programme. The reduction in expenses from 2016-17 to 2017-18 primarily relates to the currently scheduled termination of funding for the Murray-Darling Basin Authority's basin planning functions.

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	
	2013-14	2014-15	2015-16	2016-17	2017-18
	$m	$m	$m	$m	$m
Water reform(a)	719	890	1,041	830	825
Sustainable management - natural resources	33	11	6	2	1
Other	264	225	233	232	167
Total	**1,016**	**1,126**	**1,280**	**1,064**	**993**

(a) Water Reform includes the programmes: National Partnership Payments — Water and Natural Resources; Water Reform; and Commonwealth Environment Water.

Mining, manufacturing and construction

The mining, manufacturing and construction function includes expenses for programmes designed to promote the efficiency and competitiveness of Australian industries. The major components include the research and development tax incentive and programmes specific to the automotive, textile, clothing and footwear industries.

Table 14: Summary of expenses — mining, manufacturing and construction

	Estimates			Projections	
	2013-14	2014-15	2015-16	2016-17	2017-18
	$m	$m	$m	$m	$m
Mining, manufacturing and construction	3,139	2,740	2,580	2,595	2,504
Total mining, manufacturing and construction	**3,139**	**2,740**	**2,580**	**2,595**	**2,504**

Total expenses under the mining, manufacturing and construction function are expected to decrease by 14.6 per cent in real terms from 2013-14 to 2014-15 and by 15.1 per cent in real terms from 2014-15 to 2017-18.

The decrease in expenses in 2014-15 for the Research and Development Tax Incentive, administered by the Australian Taxation Office, partially reflects the $70 million a year estimate of the Government's decision to reduce the refundable tax offset by 1.5 percentage points from 45.0 per cent to 43.5 per cent, effective from 1 July 2014, for expenditure on eligible research and development activities. The increase from 2015-16 reflects an increase in the number and size of expected claims.

Expenses under the industry development and investment component of this function are expected to decrease due to the Government's decision to refocus industry policy by terminating a range of industry and innovation programmes and establishing the Entrepreneurs' Infrastructure Programme. The decrease in expenses also reflects the Government's decision to terminate the Automotive Transformation Scheme from 1 January 2018 and not proceed with funding for the General Motors Holden next generation vehicles project.

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	
	2013-14	2014-15	2015-16	2016-17	2017-18
	$m	$m	$m	$m	$m
Research and development tax incentive	2,246	1,940	2,000	2,062	2,126
Industry development and investment	679	611	381	332	213
Other	214	189	199	201	165
Total	**3,139**	**2,740**	**2,580**	**2,595**	**2,504**

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	
	2013-14	2014-15	2015-16	2016-17	2017-18
	$m	$m	$m	$m	$m
Communication	732	675	636	580	577
Rail transport	1,602	946	961	566	319
Air transport	212	219	236	223	222
Road transport	5,360	4,805	7,270	8,998	5,773
Sea transport	351	340	349	359	369
Other transport and communication	239	299	244	224	208
Total transport and communication	**8,495**	**7,286**	**9,697**	**10,949**	**7,469**

Total expenses under this function are estimated to decrease by 16.1 per cent in real terms between 2013-14 and 2014-15, and decrease by 4.8 per cent in real terms from 2014-15 to 2017-18.

The estimated expenses for the **communication** sub-function relate to communication activities and support for the digital economy through the Department of Communications and the Australian Communications and Media Authority. Total expenses under the communication sub-function are estimated to decrease by 9.8 per cent in real terms between 2013-14 and 2014-15 and decrease by 20.6 per cent in real terms from 2014-15 to 2017-18. These decreases primarily reflect the completion of several digital productivity measures and the planned completion of activities related to the sale of radio frequency spectrum.

Total expenses under the **rail transport** sub-function are estimated to decrease by 42.2 per cent in real terms from 2013-14 to 2014-15 and then decrease sharply each year thereafter (a decrease of 68.7 per cent from 2014-15 to 2017-18) reflecting the completion of projects announced in the 2009-10 Budget.

The estimated expenses for the **air transport** and **sea transport** sub-functions predominantly relate to activities of the safety regulators — the Civil Aviation Safety Authority, the Australian Maritime Safety Authority and the Australian Transport Safety Bureau (ATSB). Total expenses under the **air transport** sub-functions are estimated to increase by 1.1 per cent in real terms between 2013-14 and 2014-15 and decrease by 5.8 per cent in real terms from 2014-15 to 2017-18 primarily due to the completion of airstrip improvements under the Regional Aviation Access programme by mid-2015. Total expenses under the **sea transport** sub-function are estimated to decrease by 5.2 per cent in real terms between 2013-14 and 2014-15 and increase in real terms by 0.8 per cent from 2014-15 to 2017-18 due to the expansion of the ATSB's safety investigation responsibilities under the National Transport Reforms.

The expenses under the **road transport** sub-function primarily consist of grants provided under the Infrastructure Investment Programme. Expenses are estimated to decrease by 12.3 per cent in real terms between 2013-14 and 2014-15 and increase by 11.6 per cent in real terms from 2014-15 to 2017-18. The increase in expenses over the forward years is largely driven by additional funding for the *Infrastructure Growth Package* announced in the 2014-15 Budget, in addition to the measures announced at the 2013-14 MYEFO. Measures under the *Infrastructure Growth Package* include the *Infrastructure Growth Package — Asset Recycling Fund*, *Infrastructure Growth Package — Asset Recycling Initiative — establishment*, *Infrastructure Growth Package — addition to the Infrastructure Investment Programme for new investments*, *Infrastructure Growth Package — Western Sydney Infrastructure Plan — Road funding*, *Infrastructure Growth Package — Western Sydney Infrastructure Unit — establishment* and the *Infrastructure Growth Package — WestConnex Stage 2 — provision of a concessional loan*. Projects to be funded under these measures include WestConnex in New South Wales, the East-West Link in Victoria, priority roads around the Badgerys Creek future airport site in Western Sydney, the North South Road in South Australia, the Perth Freight Link in Western Australia and the Toowoomba Second Range Crossing in Queensland. 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.

Total expenses under the **other transport and communication** sub-function are estimated to increase by 22.4 per cent in real terms between 2013-14 and 2014-15 as part of Australia's contribution to the costs of the search for Malaysia Airlines flight MH370 and decrease by 35.4 per cent in real terms from 2014-15 to 2017-18. This sub-function primarily reflects departmental funding for the Department of Infrastructure and Regional Development and is decreasing in real terms over the forward estimates as a result of the expected reduction in activities in relation to Malaysia Airlines flight MH370 and the cessation of the *Indonesian Transport Safety Assistance* Package.

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	
	2013-14	2014-15	2015-16	2016-17	2017-18
	$m	$m	$m	$m	$m
Tourism and area promotion	189	186	177	171	168
Total labour and employment affairs	4,064	3,904	4,224	4,361	4,433
Vocational and industry training	1,724	1,465	1,467	1,490	1,509
Labour market assistance to job seekers and industry	1,579	1,631	1,978	2,100	2,168
Industrial relations	760	807	779	770	756
Immigration	4,656	4,172	3,663	2,862	2,621
Other economic affairs nec	2,355	2,408	2,302	2,253	2,263
Total other economic affairs	**11,263**	**10,670**	**10,366**	**9,646**	**9,485**

Total expenses under the other economic affairs function are expected to decrease by 7.3 per cent in real terms from 2013-14 to 2014-15 and by 17.4 per cent in real terms from 2014-15 to 2017-18.

Tourism and area promotion sub-function expenses are expected to decrease from 2014-15 due to the finalisation of several tourism related initiatives, including the T-QUAL Grants programme component of the *Programmes to promote Australia's Tourism interest* programme.

Expenses under the **vocational and industry training** sub-function are expected to decrease in real terms by 16.9 per cent from 2013-14 to 2014-15 and by 4.3 per cent from 2014-15 to 2017-18. The decline largely reflects the net effect of the measure *Tools For Your Trade – cessation*, with the Government instead providing financial assistance to apprentices through *Trade Support Loans – establishment*, and *Industry Skills Fund – establishment* which provides more targeted support to small and medium enterprises to up-skill their workforce. Further information on these measures can be found in Budget Paper No. 2, *Budget Measures 2014-15*.

Expenses under **the labour market assistance to job seeker and industry** sub-function between 2014-15 and 2017-18 are expected to increase by 23.5 per cent in real terms due to the net impact of the *Job Commitment Bonus* measure announced in the 2013-14 MYEFO and the measures *Restart Wage – boosting the wage subsidy for mature age job seekers* and *Stronger participation incentives for job seekers under 30* (see Budget Paper No. 2, *Budget Measures 2014-15*).

Expenses under the **industrial relations** sub-function are expected to increase by 3.9 per cent in real terms between 2013-14 and 2014-15 due to forecast higher demand for assistance to claimants under the Fair Entitlements Guarantee scheme (FEG).

Expenses between 2014-15 and 2017-18 are expected to decrease by 13.0 per cent in real terms, mainly due to the measure *Fair Entitlements Guarantee — aligning redundancy payments to national employment standards* (see Budget Paper No. 2, *Budget Measures 2014-15*).

Table 16.1: Trends in major components of the immigration sub-function expenses

	Estimates			Projections	
	2013-14	2014-15	2015-16	2016-17	2017-18
	$m	$m	$m	$m	$m
Illegal maritime arrivals asylum seeker management	3321	2935	2419	1651	1334
Migration, border management and citizenship	819	796	843	848	930
Refugee humanitarian assistance and settlement services	322	285	252	262	255
Other	193	156	150	102	103
Total	**4,656**	**4,172**	**3,663**	**2,862**	**2,621**

The main components of the **immigration** sub-function relate to the management of Illegal Maritime Arrivals and providing migration, border management and citizenship services.

Expenses under this sub-function are expected to decrease by 12.3 per cent in real terms between 2013-14 and 2014-15 and by 41.6 per cent in real terms from 2014-15 to 2017-18. This is mainly due to a reduction in actual and forecast numbers of Illegal Maritime Arrivals. Expenses for migration, border management and citizenship services are expected to increase in line with estimated growth in visas issued.

Expenses under the **other economic affairs (nec)** sub-function are expected to be relatively stable in real terms from 2013-14 to 2014-15 and decrease by 12.7 per cent in real terms from 2014-15 to 2017-18. This decrease is primarily due to the Government's decision to cease the Commercialisation Australia and Enterprise Solutions programmes and reduce funding for the Cooperative Research Centres programme. The terminated programmes will be replaced by the Entrepreneurs' Infrastructure Programme. Further information can be found in the measure *Entrepreneurs' Infrastructure Programme — establishment* in Budget Paper No. 2, *Budget Measures 2014-15.*

Table 16.2: Trends in major components of the other economic affairs nec sub-function expenses

	Estimates			Projections	
	2013-14	2014-15	2015-16	2016-17	2017-18
	$m	$m	$m	$m	$m
Promotion of Australia's export and other international economic interests(a)	330	339	339	335	336
Innovative industry	254	216	176	157	141
Operating costs for:					
Department of Industry	353	563	515	490	532
Australian Securities and Investments Commission	399	351	334	334	332
Bureau of Meteorology	335	335	325	320	291
IP Australia	161	164	169	171	175
Australian Competition and Consumer Commission	139	139	136	136	135
Australian Prudential Regulation Authority	120	122	125	125	129
Other	264	179	183	185	192
Total	**2,355**	**2,408**	**2,302**	**2,253**	**2,263**

(a) The programmes Export market development grants scheme and Trade, education and investment development have been moved into the Promotion of Australia’s export and other international economic interests.

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, and expenses related to the nominal interest on unfunded liabilities for government superannuation benefits.

Table 17: Summary of expenses — other purposes

	Estimates			Projections	
	2013-14	2014-15	2015-16	2016-17	2017-18
	$m	$m	$m	$m	$m
Public debt interest	13,454	14,708	16,134	17,157	17,876
Interest on Commonwealth Government's behalf	13,454	14,708	16,134	17,157	17,876
Nominal superannuation interest	8,320	9,275	9,630	9,979	10,333
General purpose inter-government transactions	53,224	57,148	60,452	63,884	67,295
General revenue assistance - States and Territories	52,056	54,861	58,165	61,598	64,909
Local government assistance	1,168	2,287	2,287	2,287	2,385
Natural disaster relief(a)	183	98	18	0	0
Contingency reserve	-793	773	4,161	5,963	9,675
Total other purposes	**74,388**	**82,002**	**90,395**	**96,984**	**105,178**

(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 Australian Government financial obligations under the NDRRA.

Total expenses under the other purposes function are estimated to increase by 7.9 per cent in real terms from 2013-14 to 2014-15, and by 19.1 per cent over the period 2014-15 to 2017-18. This increase in expenses 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, *Federal Financial Relations 2014-15*.

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 Australian Government Securities. Expenses under the **nominal superannuation interest** sub-function are projected to increase over time, reflecting the growth in the Australian Government's superannuation liability. The Future Fund was established to assist in meeting the cost of this liability. 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 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 reduced in 2013-14 reflecting the decision in the 2013-14 Budget to pay the first two instalments of the 2013-14 grants in 2012-13. Expenses are estimated to remain constant in nominal terms in 2014-15, 2015-16 and 2016-17 as a result of the Government's decision to pause indexation of the grants for three years commencing in 2014-15. Expenses are expected to increase from 2017-18 onwards as indexation of the grants recommences. Further information on Australian Government assistance to local governments can be found in Budget Paper No. 3, *Federal Financial Relations 2014-15*.

The **natural disaster relief** sub-function reflects financial support provided by the Australian Government to 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. No provision is made for future disasters. Actual (cash) payments expected to be made to States and Territories are outlined in Budget Paper No 3.

The **contingency reserve** sub-function comprises the Contingency Reserve. The Contingency Reserve is an allowance, included in aggregate expenses, that principally reflects anticipated events that cannot be assigned to individual programmes 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 Contingency 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 Contingency Reserve can only be drawn upon once they have been appropriated by Parliament. These allowances are allocated to specific agencies for appropriation closer to the time when the associated events eventuate.

The Contingency Reserve also 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 (CBA). The increase in expenses in the contingency reserve sub-function from 2014-15 is largely due to the CBA. Since the 2013-14 MYEFO, the allowance has been drawn down to:

- zero in the Budget year (2014-15);
- ½ of a percentage point of total general government sector expenses (excluding GST payments to the States) in the first forward year (2015-16);
- 1 per cent of expenses in the second forward year (2016-17); and
- a 2 per cent provision has been included in the third forward year (2017-18).

The drawdown of the allowance reduced expenses by $910 million in 2014-15, $971 million in 2015-16 and $2.0 billion in 2016-17. The drawdown of the allowance is consistent with long standing practice and does not represent a saving or offset to Government spending measures.

In general, the Contingency Reserve can also include:

- 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 programmes that are yet to be renegotiated with State and Territory governments;
- 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;
- decisions taken but not yet announced by the Government, and decisions made too late for inclusion against individual agency estimates; and
- provisions for other specific events and pressures that are reasonably expected to affect the budget estimates.

The provision made for election commitments at the time of the 2013-14 MYEFO has been removed as these decisions are included in the 2014-15 Budget, with the exception of Paid Parental Leave scheme, the Paid Parental Leave Levy and a company tax rate reduction. An adjustment has been made to the cost of the Paid Parental Leave scheme, on the basis of a reduction on the payment threshold from $150,000 to $100,000 per annum.

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 $2.4 billion in 2014-15; $1.7 billion lower than the net capital investment in 2013-14. This change is largely due to the auction for most of the 700MHz and all the 2.5GHz spectrum conducted by the Australian Communications and Media Authority in April and May 2013. Proceeds from the auction are recognised as revenue during 2014-15 when licences will be allocated to the successful bidders.

Details of movements are further explained in the following section.

Table 18: Estimates of total net capital investment

	MYEFO	Revised	Estimates		Projections	
	2013-14	2013-14	2014-15	2015-16	2016-17	2017-18
Total net capital investment ($m)	**3,706**	**4,027**	**2,359**	**708**	**2,630**	**3,962**
Per cent of GDP	0.2	0.3	0.1	0.0	0.1	0.2

Reconciliation of net capital investment since the 2013-14 Budget

A reconciliation of the net capital investment estimates, showing the effect of policy decisions and parameter and other variations since the 2013-14 Budget, is provided in Table 19.

Table 19: Reconciliation of net capital investment estimates

	Estimates			Projections	
	2013-14	2014-15	2015-16	2016-17	Total
	$m	$m	$m	$m	$m
2013-14 Budget net capital investment	**2,945**	**2,204**	**1,126**	**3,003**	**9,279**
Changes from 2013-14 Budget to 2013 PEFO					
Effect of policy decisions(a)	314	-3	-2	-2	307
Effect of parameter and other variations	711	1,631	-617	-678	1,046
Total variations	**1,024**	**1,629**	**-619**	**-681**	**1,353**
2013 PEFO net capital investment	**3,970**	**3,833**	**507**	**2,322**	**10,631**
Changes from 2013 PEFO to 2013-14 MYEFO					
Effect of policy decisions(a)	283	285	-90	-161	317
Effect of parameter and other variations	-547	-2,490	-237	217	-3,057
Total variations	**-263**	**-2,205**	**-327**	**56**	**-2,740**
2013-14 MYEFO net capital investment	**3,706**	**1,628**	**180**	**2,378**	**7,891**
Changes from 2013-14 MYEFO to 2014-15 Budget					
Effect of policy decisions(a)	460	388	688	216	1,753
Effect of parameter and other variations	-139	343	-160	36	80
Total variations	**321**	**731**	**528**	**252**	**1,833**
2014-15 Budget net capital investment	**4,027**	**2,359**	**708**	**2,630**	**9,724**

(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 2014-15 has increased by $731 million since the 2013-14 MYEFO. This increase is driven by the effect of new policy decisions of $388 million, and parameter and other variations of $343 million.

A discussion of changes between the 2013-14 MYEFO and the 2014-15 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 2014-15*.

Net capital investment estimates by function

Estimates for Australian Government general government sector net capital investment by function for the period 2013-14 to 2017-18 are provided in Table 20.

Table 20: Estimates of net capital investment by function

	Estimates			Projections	
	2013-14	2014-15	2015-16	2016-17	2017-18
	$m	$m	$m	$m	$m
General public services	546	615	140	-56	-183
Defence	2,825	3,315	3,219	2,883	3,892
Public order and safety	44	119	53	-36	-121
Education	9	-18	-15	-4	-4
Health	-14	-15	-34	-38	-18
Social security and welfare	-22	6	19	35	31
Housing and community amenities	96	35	-99	10	-128
Recreation and culture	31	86	8	-13	-40
Fuel and energy	-1	-1	-1	-1	0
Agriculture, forestry and fishing	78	64	59	78	580
Mining, manufacturing and construction	4	-3	-1	-4	-3
Transport and communication	-1	-2,136	-86	-12	-20
Other economic affairs	452	345	-44	-96	-86
Other purposes	-22	-53	-2,510	-114	63
Total net capital investment	**4,027**	**2,359**	**708**	**2,630**	**3,962**

A significant component of the Government's net capital investment occurs in the defence function, and is primarily the acquisition of military equipment. 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, and increased investment in 2013-14 and 2014-15 associated with the Commonwealth Scientific and Industrial Research Organisation Property Strategy;

- **defence** — as part of the Government's commitment to rebuild Defence, capital funding will be brought forward from 2017-18 into the period 2013-14 to 2016-17 to recapitalise it after a number of years of underinvestment and deferred funding of major capability projects. Capital funds from the Approved Major Capital Investment Programme and the Defence Capability Plan will be brought forward to address underinvestment in a range of important capabilities. This also includes funding brought forward into 2013-14 to meet capital requirements, especially in relation to foreign military purchases;

- **public order and safety** — this sub-function includes additional funding for the Australian Customs and Border Protection Service for the acquisition of *Cape* Class patrol vessels and to reform its border protection services, together with a reduction in 2015-16 following completion of the fit-out associated with the new Australian Security Intelligence Organisation (ASIO) Central Office;

- **transport and communication** — the negative investment in 2014-15 is largely due to the auction conducted by the Australian Communications and Media Authority in April and May 2013 for most of the 700MHz and all the 2.5GHz spectrum. Proceeds from the auction are recognised as revenue during 2014-15 when licences will be allocated to the successful bidders. Further proceeds from the renewal of the telecommunication carrier's 15 year licences for 1800MHz spectrum are also being recognised in 2014-15;

- **other economic affairs** — capital investment in 2013-14 and 2014-15 is largely for the construction of offshore processing facilities for the accommodation of Illegal Maritime Arrivals, in support of Operation Sovereign Borders; 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	
	2013-14	2014-15	2015-16	2016-17	2017-18
	$m	$m	$m	$m	$m
General public services	1,220	1,257	1,081	832	620
Defence	6,640	7,285	7,408	7,312	8,398
Public order and safety	384	487	440	347	288
Education	29	-11	-10	-2	-2
Health	74	75	61	54	57
Social security and welfare	306	327	361	391	368
Housing and community amenities	184	39	53	34	63
Recreation and culture	305	313	454	296	268
Fuel and energy	3	1	1	0	1
Agriculture, forestry and fishing	105	92	86	105	607
Mining, manufacturing and construction	10	8	8	5	5
Transport and communication	65	62	43	52	39
Other economic affairs	897	770	375	315	321
Other purposes	17	-24	-145	-114	63
General government purchases of non-financial assets	**10,240**	**10,679**	**10,215**	**9,626**	**11,094**

APPENDIX A: EXPENSE BY FUNCTION AND SUB-FUNCTION

Table A1: Estimates of expenses by function and sub-function

	Actuals	Estimates			Projections	
	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
	$m	$m	$m	$m	$m	$m
General public services						
Legislative and executive affairs	959	1,334	1,191	1,015	1,222	1,045
Financial and fiscal affairs	7,843	17,652	8,513	8,585	8,797	8,799
Foreign affairs and economic aid	5,796	6,060	6,299	6,125	6,704	6,733
General research	2,651	2,724	2,651	2,554	2,343	2,387
General services	759	714	821	757	773	797
Government superannuation benefits	7,947	5,667	3,709	3,715	3,516	3,290
Total general public services	**25,956**	**34,151**	**23,185**	**22,752**	**23,357**	**23,051**
Defence	**21,146**	**22,840**	**24,197**	**25,249**	**25,719**	**27,632**
Public order and safety						
Courts and legal services	852	1,080	1,043	957	871	882
Other public order and safety	3,071	3,366	3,346	3,141	3,184	3,168
Total public order and safety	**3,923**	**4,446**	**4,389**	**4,098**	**4,054**	**4,051**
Education						
Higher education	8,714	8,970	9,223	9,274	9,282	9,465
Vocational and other education	1,887	1,766	1,824	1,837	2,003	1,515
Schools	12,442	13,567	14,374	15,646	17,032	18,149
Non-government schools	*8,116*	*8,764*	*9,260*	*9,957*	*10,685*	*11,277*
Government schools	*4,326*	*4,803*	*5,114*	*5,689*	*6,348*	*6,872*
School education - specific funding	1,552	1,151	734	282	194	163
Student assistance	3,597	3,998	3,338	3,110	3,264	3,431
General administration	276	255	61	56	67	65
Total education	**28,468**	**29,707**	**29,553**	**30,206**	**31,843**	**32,788**
Health						
Medical services and benefits	25,342	26,390	28,227	28,384	29,982	31,442
Pharmaceutical benefits and services	9,832	10,519	10,547	10,693	11,209	11,589
Assistance to the States for public hospitals(a)	13,309	13,845	15,116	16,551	18,095	18,872
Hospital services(b)	2,632	2,844	1,950	1,777	1,686	1,705
Health services	6,294	6,839	7,109	6,794	6,749	7,040
General administration	3,164	3,274	3,214	3,254	3,257	3,300
Aboriginal and Torres Strait Islander health	730	800	730	749	818	908
Total health	**61,302**	**64,511**	**66,892**	**68,203**	**71,797**	**74,856**
Social security and welfare						
Assistance to the aged	50,688	54,984	57,967	60,791	64,612	67,718
Assistance to veterans and dependants	6,968	6,984	6,933	6,783	6,628	6,356
Assistance to people with disabilities	24,018	26,035	27,961	29,802	34,431	42,910
Assistance to families with children	35,119	36,131	35,540	34,352	35,022	35,005

Table A1: Estimates of expenses by function and sub-function (continued)

	Actuals	Estimates			Projections	
	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
	$m	$m	$m	$m	$m	$m
Social security and welfare (continued)						
Assistance to the unemployed and the sick	8,518	10,238	10,233	10,571	10,687	10,610
Other welfare programmes	1,555	735	735	843	918	1,003
Assistance for Indigenous Australians nec	1,172	1,910	2,161	2,162	2,155	2,107
General administration	3,863	3,552	4,242	3,965	3,918	3,876
Total social security and welfare	**131,901**	**140,569**	**145,773**	**149,269**	**158,370**	**169,585**
Housing and community amenities						
Housing	2,844	3,284	3,231	3,133	3,405	3,498
Urban and regional development	531	578	695	697	521	431
Environment protection	3,391	4,521	910	1,072	1,100	1,176
Total housing and community amenities	**6,766**	**8,383**	**4,835**	**4,902**	**5,026**	**5,105**
Recreation and culture						
Broadcasting	1,665	1,539	1,549	1,570	1,554	1,588
Arts and cultural heritage	1,167	1,239	1,226	1,126	1,172	1,122
Sport and recreation	403	552	382	335	333	293
National estate and parks	389	395	355	330	326	340
Total recreation and culture	**3,625**	**3,725**	**3,512**	**3,360**	**3,385**	**3,343**
Fuel and energy	**5,954**	**7,047**	**7,058**	**7,172**	**7,439**	**7,836**
Agriculture, forestry and fishing						
Wool industry	57	58	57	57	57	57
Grains industry	184	184	212	202	194	203
Dairy industry	51	53	53	54	54	56
Cattle, sheep and pig industry	168	182	182	183	185	186
Fishing, horticulture and other agricultur	217	272	283	293	288	282
General assistance not allocated to specific industries	25	26	26	27	28	28
Rural assistance	119	144	151	110	113	95
Natural resources development	951	1,016	1,126	1,280	1,064	993
General administration	635	695	663	663	661	666
Total agriculture, forestry and fishing	**2,407**	**2,629**	**2,752**	**2,868**	**2,642**	**2,565**
Mining, manufacturing and construction	**2,920**	**3,139**	**2,740**	**2,580**	**2,595**	**2,504**
Transport and communication						
Communication	637	732	675	636	580	577
Rail transport	1,025	1,602	946	961	566	319
Air transport	213	212	219	236	223	222
Road transport	2,521	5,360	4,805	7,270	8,998	5,773
Sea transport	310	351	340	349	359	369
Other transport and communication	316	239	299	244	224	208
Total transport and communication	**5,023**	**8,495**	**7,286**	**9,697**	**10,949**	**7,469**

Table A1: Estimates of expenses by function and sub-function (continued)

	Actuals	Estimates			Projections	
	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
	$m	$m	$m	$m	$m	$m
Other economic affairs						
Tourism and area promotion	190	189	186	177	171	168
Total labour and employment affairs	4,156	4,064	3,904	4,224	4,361	4,433
Vocational and industry training	*1,628*	*1,724*	*1,465*	*1,467*	*1,490*	*1,509*
Labour market assistance to job seekers and industry	*1,727*	*1,579*	*1,631*	*1,978*	*2,100*	*2,168*
Industrial relations	*801*	*760*	*807*	*779*	*770*	*756*
Immigration	3,533	4,656	4,172	3,663	2,862	2,621
Other economic affairs nec	2,752	2,355	2,408	2,302	2,253	2,263
Total other economic affairs	**10,631**	**11,263**	**10,670**	**10,366**	**9,646**	**9,485**
Other purposes						
Public debt interest	12,521	13,454	14,708	16,134	17,157	17,876
Interest on Commonwealth Government's behalf	*12,521*	*13,454*	*14,708*	*16,134*	*17,157*	*17,876*
Nominal superannuation interest	6,729	8,320	9,275	9,630	9,979	10,333
General purpose inter-government transactions	51,480	53,224	57,148	60,452	63,884	67,295
General revenue assistance - States and Territories	*49,244*	*52,056*	*54,861*	*58,165*	*61,598*	*64,909*
Local government assistance	*2,236*	*1,168*	*2,287*	*2,287*	*2,287*	*2,385*
Natural disaster relief(c)	1,893	183	98	18	0	0
Contingency reserve	0	-793	773	4,161	5,963	9,675
Total other purposes	**72,623**	**74,388**	**82,002**	**90,395**	**96,984**	**105,178**
Total expenses	**382,644**	**415,294**	**414,845**	**431,118**	**453,806**	**475,447**

(a) The name of this sub-function has changed from the ‘National Health Reform Payment’ to the ‘Assistance to the States for public hospitals’.

(b) 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 former National Health Reform Payment sub-function (now called the ‘Assistance to the States for public hospitals’ sub-function).

(c) 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 Australian Government financial obligations under the NDRRA.

STATEMENT 7: DEBT STATEMENT, ASSETS AND LIABILITIES

This statement includes the Debt Statement and information on the major assets and liabilities on the Government's balance sheet.

CONTENTS

STATEMENT 7: DEBT STATEMENT, ASSETS AND LIABILITIES

DEBT STATEMENT

The Debt Statement provides information on current and projected debt on issue and details of climate spending and the extent to which this spending has contributed to debt.

Commonwealth Government Securities issuance

The Government finances its activities either through receipts or by borrowing. When receipts fall short of payments, the Government borrows by issuing Commonwealth Government Securities (CGS) to investors.

Even when CGS issuance is not required to finance the government's activities, successive governments have continued to issue CGS for policy purposes, such as to maintain a liquid CGS market. A well-functioning CGS market supports the Treasury Bond futures markets (used by financial institutions to manage interest rate risk), supports the corporate bond market by providing a risk-free benchmark, and provides a low-risk investment vehicle.

The Australian Office of Financial Management (AOFM) is the agency responsible for issuing CGS and the management of the Government's financing activities. The AOFM currently issues three types of securities:

Treasury Bonds: medium- to long-term securities with a fixed annual rate of interest payable every six months;

Treasury Indexed Bonds (TIBs): medium- to long-term securities for which the capital value of the security is adjusted for movements in the consumer price index (CPI). Interest on TIBs is paid quarterly, at a fixed rate, on the adjusted capital value; and

Treasury Notes: short-term securities generally maturing within six months of issuance. 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.

All new CGS issuance is undertaken in Australian dollars. There is a very small amount of foreign currency denominated debt securities on issue remaining from issuance undertaken before 1988. Most of these securities mature in March 2017.

Within these three broad categories of CGS, issuance is undertaken into a limited number of maturities (known as lines). Each of these lines has a fixed maturity date (the date on which the Government repays the principal it has borrowed) and, for

Treasury Bonds and TIBs, a coupon rate (the annual fixed interest rate paid on the security).

Concentrating CGS issuance into a limited number of lines (rather than issuing securities with a specific time value, such as 10 years) ensures each line is sufficiently large that it can easily be traded in the secondary market. Maintaining a limited number of liquid lines promotes demand for CGS, and assists in lowering borrowing costs.

Estimates and projections of CGS on issue

Estimates and projections of CGS on issue are published in both face value and market value terms in this statement.

The **face value** of CGS on issue is the amount that the Government pays back to investors at maturity, independent of fluctuations in market prices.[1] The total face value of CGS on issue changes when new securities are issued, or when securities are repurchased or reach maturity.

The **market value** of CGS represents the value of securities as traded on the secondary market, which changes continuously with movements in market prices. Consistent with external reporting standards the market value of CGS on issue is reported on the Australian Government general government sector balance sheet. Changes in the market price of CGS will have an impact on the value of net debt.

Table 1 contains projections of the face value (end-of-year and within-year peak) and the market value (end-of-year) of CGS on issue.

As required by the *Charter of Budget Honesty Act 1998*, Table 1 reports projections of CGS on issue subject to the Treasurer's Direction. The Treasurer's Direction specifies the maximum face value of stock and securities that can be on issue.

When considering these projections, it is important to note that the AOFM publishes an issuance strategy for the budget year only. Projections beyond the budget year are based on a set of technical assumptions and will vary with changes to these assumptions and budget estimates and projections.

1 For TIBs, the final repayment amount paid to investors includes an additional amount owing to inflation accretion over the life of the security. This amount is not included in the calculation of face value.

Table 1: Projections of Commonwealth Government Securities on issue subject to the Treasurer's Direction(a)

	2013-14 $b	2014-15 $b	2015-16 $b	2016-17 $b	2017-18 $b
Face value - within-year peak(b)	330	370	410	450	470
Per cent of GDP(b)	20.8	22.7	24.0	25.1	25.0
Month of peak(b)	*Jun-14*	*Apr-15*	*Jun-16*	*Feb-17*	*Jan-18*
Face value - end of year	320	360	390	430	440
Per cent of GDP	20.2	22.1	22.8	24.0	23.4
Market value - end of year(c)	340	380	420	460	470
Per cent of GDP	21.5	23.3	24.6	25.6	25.0

(a) The face and market value of CGS published in this table are rounded to the nearest $10 billion.
(b) The precise within-year timing of cash receipts and payments is not known. Projected peaks of CGS on issue are therefore subject to considerable uncertainty.
(c) The Treasurer's Direction applies only to the face value of CGS on issue. This table shows the equivalent market value of CGS that are subject to the Treasurer's Direction. These figures will differ from the estimates and projections published in *Statement 9: Budget Financial Statements* Table 2: Australian Government general government sector balance sheet that refer to total CGS on issue.
Source: Australian Office of Financial Management.

The amount of CGS on issue subject to the Treasurer's Direction is reported weekly on the AOFM website.

In 2014-15, the face value of CGS on issue is expected to reach a within-year peak of around $370 billion. Over the forward estimates, the face value of CGS on issue is projected to rise to a within-year peak of around $470 billion in 2017-18.

Changes in CGS on issue since the 2013-14 MYEFO

Table 2 shows the change in the projected end-of-year face value of CGS on issue, between the 2013-14 MYEFO and the 2014-15 Budget.

Table 2: Projected CGS on issue subject to the Treasurer's Direction — reconciliation from the 2013-14 MYEFO to the 2014-15 Budget

	2013-14 $b	2014-15 $b	2015-16 $b	2016-17 $b
Total face value of CGS on issue subject to the Treasurer's direction as at 2013-14 MYEFO	310	360	400	430
Factors affecting the change in face value of CGS on issue from 2013-14 MYEFO to 2014-15 Budget				
Receipts decisions	0.0	-0.7	-1.9	-2.8
Receipts variations	1.4	-2.4	0.6	-1.2
Payment decisions	0.5	-1.0	-4.0	-7.6
Payment variations	1.1	-0.2	-1.8	4.4
Net investments in financial assets(a)	4.7	-0.3	3.6	8.5
Total face value of CGS on issue subject to the Treasurer's direction as at 2014-15 Budget	320	360	390	430

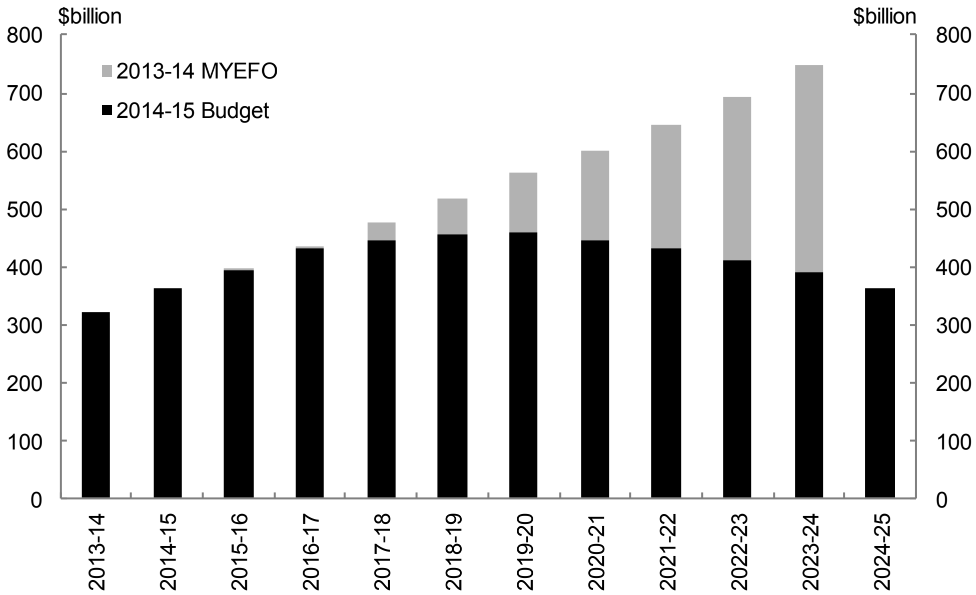
(a) Change in net cash flows from investments in financial assets for policy and liquidity purposes.
Note: End of year data. Projections of the face value of CGS on issue are published to the nearest $10 billion. As such, numbers do not add due to rounding.

Chart 1 shows the projected end-of-year face value of CGS on issue, as at the 2013-14 MYEFO and the 2014-15 Budget, over the medium term.

The published 2013-14 MYEFO face value of CGS on issue figure of $667 billion in 2023-24 did not include a cap on tax receipts. The projection for MYEFO in Chart 1 includes a 23.9 per cent of GDP cap on tax receipts, increasing the face value of CGS on issue projected to $748 billion in 2023-24.

In comparison, at 2014-15 Budget CGS on issue is projected to be $389 billion in 2023-24, an improvement of $359 billion. By 2024-25, the projected end-of-year face value of CGS on issue is expected to reach $362 billion.

Chart 1: Total face value of CGS on issue 2013-14 MYEFO vs 2014-15 Budget



Note: A tax-to-GDP cap of 23.9 per cent has been applied to these projections. This is the average tax-to-GDP ratio in the years post-GST and pre-GFC. MYEFO tax-cap projection was not published at MYEFO.
Source: Australian Office of Financial Management and Treasury projections.

Over the medium term, the majority of the decrease in the face value of CGS on issue since MYEFO can be attributed to an improvement in the underlying cash balance as a result of policy decisions.

Further details on the changes to the underlying cash balance since the 2013-14 MYEFO can be found in *Statement 3: Fiscal Strategy and Outlook*.

Changes in net debt since the 2013-14 MYEFO

Australian Government general government sector net debt is equal to the sum of deposits held, government securities (at market value), loans and other borrowing, minus the sum of cash and deposits, advances paid and investments, loans and placements.

Table 3: Liabilities and assets included in net debt from 2013-14 to 2017-18

	Estimates			Projections	
	2013-14	2014-15	2015-16	2016-17	2017-18
	$m	$m	$m	$m	$m
Liabilities included in net debt					
Deposits held	182	182	182	182	182
Government securities	346,648	387,772	421,424	460,519	475,214
Loans	9,608	13,436	12,707	12,717	12,640
Other borrowing	1,524	1,376	1,276	1,175	1,149
Total liabilities included in net debt	**357,963**	**402,766**	**435,590**	**474,593**	**489,185**
Assets included in net debt					
Cash and deposits	3,004	2,480	2,764	2,760	3,080
Advances paid	39,737	45,145	52,454	61,294	70,021
Investments, loans and placements	117,371	128,753	134,010	149,258	151,884
Total assets included in net debt	**160,111**	**176,378**	**189,228**	**213,313**	**224,985**
Net debt	**197,851**	**226,388**	**246,362**	**261,280**	**264,200**

Net debt in 2014-15 is estimated to decrease by $4.7 billion since the 2013-14 MYEFO to $226.4 billion. From 2014-15 to 2016-17, net debt is lower compared to the 2013-14 MYEFO. This is primarily driven by the higher value of investments held by the Government in newly established funds and other deposits. Changes in the financing requirement have also resulted in a small reduction of net debt. These decreases are partially offset by the impact of lower average yields compared to those at the 2013-14 MYEFO, which increases the market value of Commonwealth Government Securities on issue.

Table 4: Net debt — reconciliation from the 2013-14 MYEFO to the 2014-15 Budget

	2013-14	2014-15	2015-16	2016-17
	$b	$b	$b	$b
Net Debt as at 2013-14 MYEFO ($b)	191.5	231.1	259.1	280.5
Changes in financing requirement	5.7	-0.8	-3.9	-3.7
Impact of lower yields on CGS	5.9	6.2	6.3	6.1
Asset and other liability movements	-5.3	-10.2	-15.1	-21.6
Total movements in Net Debt from 2013-14 MYEFO to 2014-15 Budget ($b)	*6.3*	*-4.7*	*-12.7*	*-19.2*
Net Debt as at 2014-15 Budget ($b)	197.9	226.4	246.4	261.3

Breakdown of CGS currently on issue

Table 5 provides a breakdown of the CGS on issue by type of security as at 8 May 2014.

Table 5: Breakdown of current Commonwealth Government Securities on issue

	On issue as at 8 May 2014	
	Face value	Market value(a)
	$m	$m
Treasury Bonds	295,136	313,738
Treasury Indexed Bonds	20,540	26,474
Treasury Notes	1,000	990
Total CGS subject to Treasurer's Direction(b)	316,676	341,202
Other stock and securities	2,548	4,773
Total CGS on issue	**319,225**	**345,975**

(a) The Treasurer's Direction applies only to the face value of CGS on issue. This table shows the equivalent market value of CGS that are subject to the Treasurer's Direction.

(b) The same stock and securities that were excluded from the previous legislative limit are excluded from the current limit set by the Treasurer's Direction. These exclusions, outlined in subsection 51JA(2A) of the Commonwealth Inscribed Stock Act 1911, are:

- stock and securities issued in relation to money borrowed under the *Loan (Temporary Revenue Deficits) Act 1953*;
- stock and securities loaned by the Treasurer under a securities lending arrangement under section 5BA of the *Loans Securities Act 1919*, or held by or on behalf of the Treasurer for the purpose of such an arrangement;
- stock and securities invested under subsection 39(2) of the *Financial Management and Accountability Act 1997*; and
- stock and securities on issue as at the start of 13 July 2008, other than Treasury Fixed Coupon Bonds.

Source: Australian Office of Financial Management.

Treasury Bonds

Table 6 lists Treasury Bonds currently on issue, as well as the annual interest rate (the coupon) and the timing of coupon payments. There are currently 20 Treasury Bond lines on issue, with a weighted average term to maturity of around 5.8 years and the longest maturity extending to April 2033.

Table 6: Treasury Bonds on issue

Coupon Per cent	Maturity	On issue as at 8 May 2014 $m	Timing of interest payments(a)		
6.25	15-Jun-14	13,299	Twice yearly	15 Jun	15 Dec
4.50	21-Oct-14	12,000	Twice yearly	21 Oct	21 Apr
6.25	15-Apr-15	14,798	Twice yearly	15 Apr	15 Oct
4.75	21-Oct-15	13,900	Twice yearly	21 Oct	21 Apr
4.75	15-Jun-16	21,900	Twice yearly	15 Jun	15 Dec
6.00	15-Feb-17	21,096	Twice yearly	15 Feb	15 Aug
4.25	21-Jul-17	17,200	Twice yearly	21 Jul	21 Jan
5.50	21-Jan-18	19,900	Twice yearly	21 Jan	21 Jul
3.25	21-Oct-18	5,500	Twice yearly	21 Oct	21 Apr
5.25	15-Mar-19	19,647	Twice yearly	15 Mar	15 Sep
4.50	15-Apr-20	19,197	Twice yearly	15 Apr	15 Oct
5.75	15-May-21	20,999	Twice yearly	15 May	15 Nov
5.75	15-Jul-22	17,500	Twice yearly	15 Jul	15 Jan
5.50	21-Apr-23	20,600	Twice yearly	21 Apr	21 Oct
2.75	21-Apr-24	13,900	Twice yearly	21 Apr	21 Oct
3.25	21-Apr-25	11,200	Twice yearly	21 Apr	21 Oct
4.25	21-Apr-26	7,700	Twice yearly	21 Apr	21 Oct
4.75	21-Apr-27	11,700	Twice yearly	21 Apr	21 Oct
3.25	21-Apr-29	6,500	Twice yearly	21 Apr	21 Oct
4.50	21-Apr-33	6,600	Twice yearly	21 Apr	21 Oct

(a) Where the timing of an interest payment falls on a non-business day, the payment will occur on the following business day.
Source: Australian Office of Financial Management.

Treasury Indexed Bonds

Table 7 lists Treasury Indexed Bonds currently on issue, as well as the annual interest rate (the coupon) and the timing of coupon payments. There are currently 7 TIB lines on issue, with a weighted average term to maturity of around 9.6 years and the longest maturity extending to August 2035.

Table 7: Treasury Indexed Bonds (TIBs) on issue

Coupon Per cent	Maturity	On issue as at 8 May 2014 $m	Timing of interest payments(a)				
4.00	20-Aug-15	1,157	Quarterly	20 Aug	20 Nov	20 Feb	20 May
1.00	21-Nov-18	2,539	Quarterly	21 Nov	21 Feb	21 May	21 Aug
4.00	20-Aug-20	4,973	Quarterly	20 Aug	20 Nov	20 Feb	20 May
1.25	21-Feb-22	3,400	Quarterly	21 Feb	21 May	21 Aug	21 Nov
3.00	20-Sep-25	5,450	Quarterly	20 Sep	20 Dec	20 Mar	20 June
2.50	20-Sep-30	3,150	Quarterly	20 Sep	20 Dec	20 Mar	20 June
2.00	21-Aug-35	2,400	Quarterly	21 Aug	21 Nov	21 Feb	21 May

(a) Where the timing of an interest payment falls on a non-business day, the payment will occur on the following business day.
Source: Australian Office of Financial Management.

Treasury Notes

The face value of Treasury Notes on issue as at 8 May 2014 was $1 billion. Table 8 lists the Treasury Notes currently on issue. Treasury Notes do not pay a coupon, but they are issued at a discount — the face value received at maturity is higher than the price paid at issuance.

Table 8: Treasury Notes on issue

Maturity	On issue as at 8 May 2014 ($m)	Timing of interest payment	
8-Aug-14	500	At maturity	8 Aug
24-Oct-14	500	At maturity	24 Oct

Source: Australian Office of Financial Management.

Non-resident holdings of CGS on issue

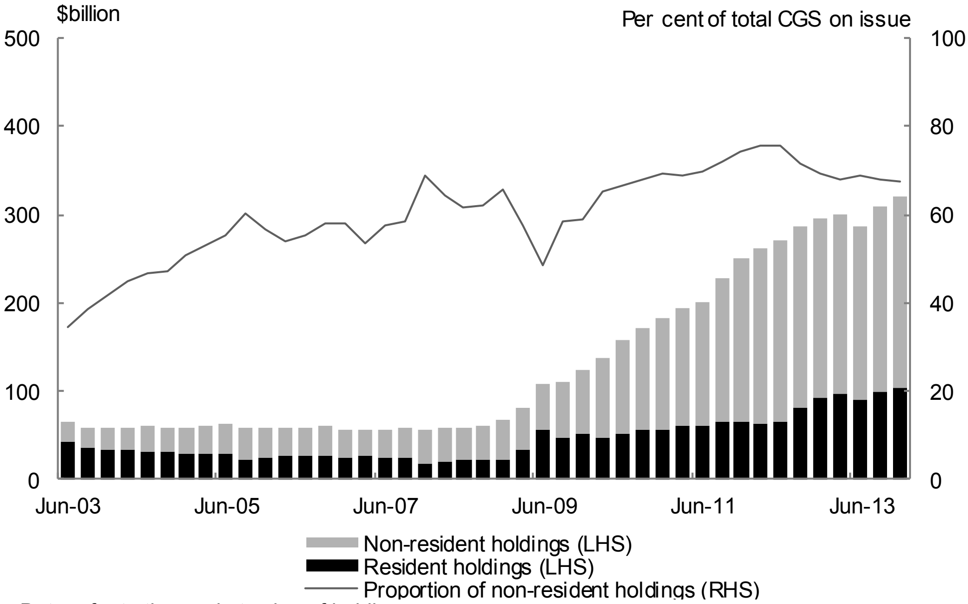
The sale of CGS is not restricted to Australian residents. As at the December quarter 2013, 67.5 per cent of total CGS on issue were held by non-residents of Australia (Chart 2).

The proportion of CGS held by non-residents remains around historically high levels, having risen significantly since 2009. This is likely to have been driven by the build-up of foreign currency reserves in some countries, and the increasing tendency for these reserves to be invested outside of the major currencies (such as the yen, the US dollar and the euro).

The historically high proportion of non-resident holdings of CGS is also likely to have been driven by a rise in investor confidence in the Australian sovereign debt market, owing to the relative strength of Australia's public finances and the Australian economy more broadly. This is also contributing to demand for the Australian dollar.

The confidence in the Australian sovereign debt market and the overall subdued global growth outlook has likely contributed to the favourable yields for Australian sovereign debt.

Chart 2: Non-resident holdings of Commonwealth Government Securities



Note: Data refer to the market value of holdings.
Source: ABS Catalogue Number 5302.0 and Australian Office of Financial Management.

Interest on CGS

The interest costs related to CGS are presented in these statements in both cash and accrual accounting terms. The difference between the cash interest payments and accrual interest expense generally relates to the timing of when the interest cost is recognised;

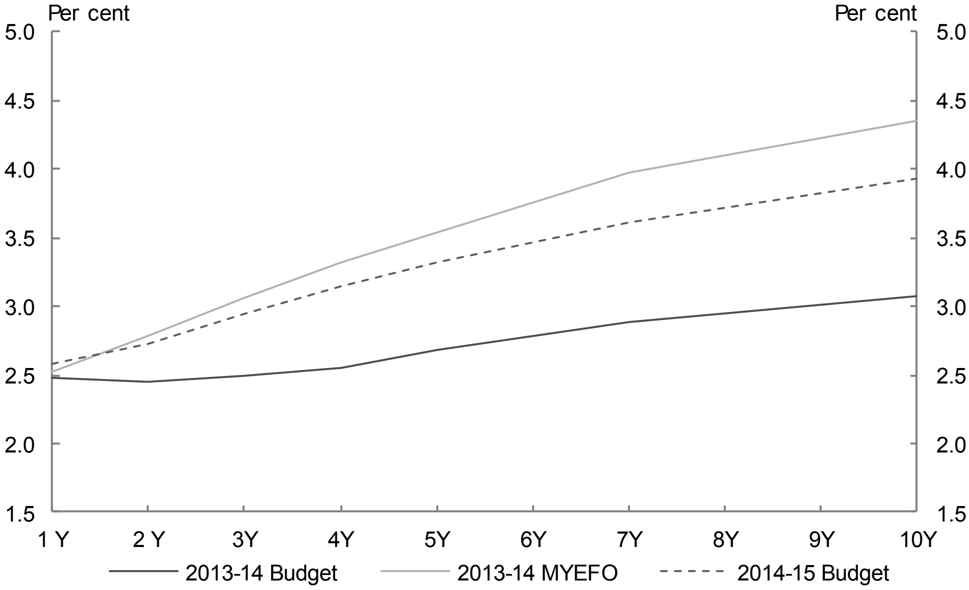
- **Interest payments** are recognised in the period when they are paid during the life of the security.
- **Interest expense** is recognised in the period in which an expense is incurred during the life of the security, rather when they are actually paid.

Estimates of the interest payments and expense of CGS on issue include the cost of CGS already on issue and future CGS issuance. The cost of:

- CGS already on issue uses the actual interest rates incurred at the time of issuance; and
- the expected future issuance of CGS is based on the prevailing market rates across the yield curve at the time of a budget estimates update.

The assumed market yields at the 2014-15 Budget result in a weighted average cost of borrowing of around 3.7 per cent for future issuance of Treasury Bonds in the forward estimates period, compared with around 3.9 per cent at the 2013-14 MYEFO. Chart 3 shows the yield curve assumptions underpinning the 2013-14 Budget, 2013-14 MYEFO and 2014-15 Budget.

Chart 3: Yield curve assumptions from 2013-14 to 2017-18



The Government's interest payments and expense over the forward estimates mostly relate to the cost of servicing the stock of CGS on issue, and are expected to increase over the forward estimates as a result of the projected rise in CGS on issue.

The Government's total interest payments in 2014-15 are estimated to be $14.2 billion, of which $13.5 billion relates to CGS on issue (Table 9).

Table 9: Interest payments

	2013-14	2014-15	2015-16	2016-17	2017-18
	$m	$m	$m	$m	$m
Interest payments on CGS	13,235	13,515	14,786	15,535	16,352
Per cent of GDP	0.8	0.8	0.9	0.9	0.9
Total interest payments	13,935	14,174	15,442	16,188	17,011
Per cent of GDP	0.9	0.9	0.9	0.9	0.9

The Government's interest expenses in 2014-15 are estimated to be $15.6 billion, of which $14.7 billion relates to CGS on issue. In the 2013-14 MYEFO, interest expenses in 2014-15 were estimated to be $16.4 billion, of which $15.0 billion related to CGS on issue. Table 10 shows the Government's estimated interest expense, interest expense on CGS, interest income and net interest expense over the forward estimates.

Table 10: Interest expense, interest income and net interest expense

	2013-14	2014-15	2015-16	2016-17	2017-18
	$m	$m	$m	$m	$m
Interest expense	14,396	15,551	17,072	18,327	19,011
Per cent of GDP	0.9	1.0	1.0	1.0	1.0
Interest expense on CGS	*13,429*	*14,707*	*16,133*	*17,156*	*17,875*
Interest income	3,445	4,229	4,731	5,128	5,565
Per cent of GDP	0.2	0.3	0.3	0.3	0.3
Net interest expense	10,952	11,322	12,341	13,199	13,446
Per cent of GDP	0.7	0.7	0.7	0.7	0.7

Climate spending

The Government's climate spending is shown on an aggregated basis in Table 11.

Table 11: Climate spending from 2013-14 to 2017-18

	2013-14	2014-15	2015-16	2016-17	2017-18
	$b	$b	$b	$b	$b
Climate spending(a)	5.75	1.25	0.75	0.60	0.50

(a) Spending in this table is on a headline cash balance basis; that is, payments and net cash flows from investments in financial assets for policy purposes, as well as estimated interest receipts associated with Clean Energy Finance Corporation investments.

Over the forward estimates, the key components of climate spending are:

- the Emissions Reduction Fund, which will provide incentives to support abatement activities across the economy;
- funding for the Department of Industry to support Australian Renewable Energy Agency legacy functions;
- the free permit buyback facility provided as part of the Jobs and Competitiveness Programme and the Energy Security Fund, noting these programmes will be abolished from 2014-15; and
- previously committed expenditure from the Biodiversity Fund and the Clean Technology Programmes, noting these programmes will no longer be eligible for new applications beyond 2013-14.

The slight increase in climate spending in 2013-14 is primarily due to additional investment by the Clean Energy Finance Corporation since MYEFO.

Impact of climate spending on debt

Receipts and debt are not specifically allocated to particular spending programmes. In this context, there are multiple approaches that could be taken to consider the extent to which spending on climate change has contributed to debt.

One approach is to assume that the proportion of climate spending being financed through new debt (as opposed to receipts) is equivalent to climate spending as a proportion of total spending. Table 12 shows the impact of climate change spending on debt using this approach.

Table 12: Impact on debt — climate spending as a proportion of total spending

	2013-14	2014-15	2015-16	2016-17	2017-18
Climate spending ($b)	5.75	1.25	0.75	0.60	0.50
Total spending ($b)	417.2	419.3	437.0	459.5	479.4
Climate spending (per cent of total spending)	1.4	0.3	0.2	0.1	0.1
Change in face value of CGS from previous year ($b)	63	40	30	40	20
Contribution to change in face value of CGS from climate spending ($b)	0.86	0.12	0.05	0.05	0.02

(a) The calculation of spending in this table is on a headline cash balance basis; that is, payments and net cash flows from investments in financial assets for policy purposes, as well as estimated interest receipts associated with the Clean Energy Finance Corporation investments.
(b) Calculations of the change in the face value of CGS on issue use data from 2013-14 onwards rounded to the nearest $10 billion and are total CGS on issue.

Recurrent and capital spending

In the 2013-14 MYEFO, the Government made a commitment to enhance disclosure in the 2014-15 Budget on the proportion of the budget[2] allocated to recurrent and capital spending.

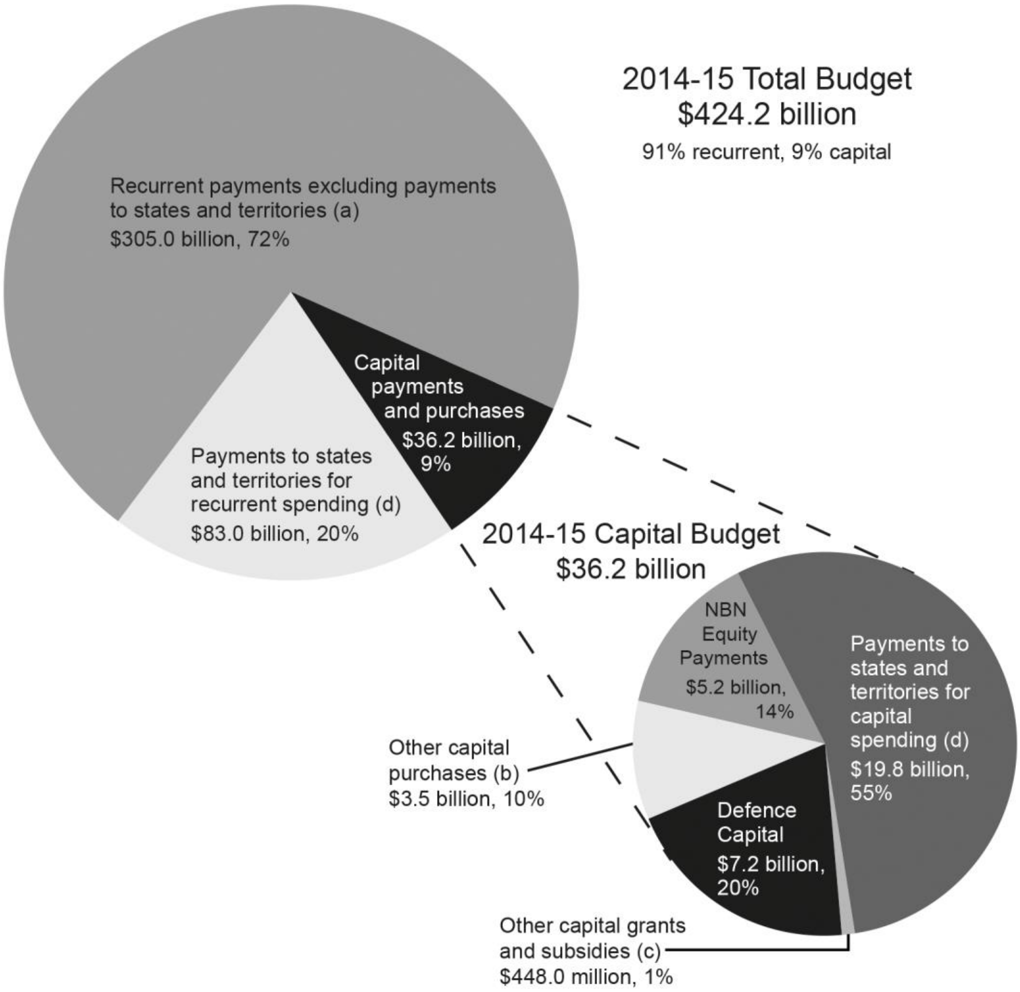
The **recurrent budget** includes pension and income support payments, funding in the areas of health and education (except where funding is allocated to the building of facilities), interest payments on public debt, student loans, and operating costs of the Government including payments to employees.

The **capital budget** comprises loans and other funding made to fund infrastructure, including transport and communications infrastructure; and purchases of defence and other non-financial assets.

Chart 4 below presents a detailed breakdown of recurrent and capital spending for the 2014-15 year.

2 Total budget is defined as all cash outflows within the underlying cash balance and headline cash balance (where identifiable). This is equal to total payments plus investments in financial assets for policy purposes (for example, loans and equity payments).

Chart 4: Recurrent and capital spending as a proportion of the Budget in 2014-15



(a) Recurrent payments excluding payments to states and territories include pension and income support payments, government loans, payments to government employees, payments for goods and services, and grants and subsidies not made for capital purposes.
(b) Other capital purchases include the purchase of land and buildings, software and other facilities.
(c) Capital grants and subsidies include payments to recipients other than those within the general government, for example local governments.
(d) State and territory payments include payments for general revenue assistance (including Goods and Services Tax payments) and specific purpose payments.

Chart 4 shows that 91 per cent of total budget spending estimates in 2014-15 is recurrent, and the remaining 9 per cent of the budget is capital.

Of the total budget, 72 per cent comprises recurrent payments such as income support payments, grants and subsidies to recipients other than states and territories, interest payments on public debt, operating costs of the Government, and student loans.

Payments to States and Territories to fund recurrent spending make up 20 per cent of the budget.[3] This amount includes specific purpose payments to States and Territories, including in the areas of health and education, and recurrent spending by the States and Territories estimated to be funded through general revenue assistance.

Of the $36.2 billion of the capital budget, around $19.8 billion relates to specific purpose payments to the states and territories for capital purposes and the portion of General Revenue Assistance that is estimated to fund capital spending by the States and Territories. Equity payments to NBN Co comprise around 14 per cent of the capital budget and purchases of defence capital (for example, defence weapons and aircraft) comprises around 20 per cent. Other capital purchases such as software facilities upgrades make up around 10 per cent of the capital budget, with the remaining 1 per cent funding capital loans, grants and subsidies to recipients other than States and Territories.

Funding for the Infrastructure Growth Package is reflected in payments to States and Territories for capital spending (for amounts paid to States and Territories) and other capital loans, grants and subsidies (for amounts paid to local governments).

Additional Transparency — Medium term projections

To improve the transparency of the budget papers, the medium term projections in this budget have been enhanced to encourage discussion and debate beyond the short term about the benefits of funding important investments such as infrastructure.

Building on the presentation of the medium term in the 2013 Pre-Election Economic and Fiscal Outlook, *Budget Statement 3: Fiscal Strategy and Outlook* includes different scenarios of the medium term outlook, for the underlying cash balance, total payments, total receipts and CGS on issue.

Further, the Budget details the Government's commitment to funding productivity-enhancing infrastructure over the medium term.

The Government is investing $50 billion in infrastructure spending over the next 6 years, with this spending included in the forward estimates and medium term projections. The Government's infrastructure spending will also catalyse State and private sector infrastructure investment, bringing total infrastructure spending to over $125 billion.

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3 The proportions of general revenue assistance which fund recurrent and capital spending has been estimated based on past data. Specific purpose payments are split into recurrent and capital in accordance with Government Finance Statistics.

The medium term fiscal projections in this budget include the expenditure on infrastructure by the Commonwealth, but do not take into account the economic benefits of this infrastructure.

When the over $125 billion of additional infrastructure projects catalysed by the Government are completed, they will add one percentage point to the level of GDP.

THE AUSTRALIAN GOVERNMENT'S MAJOR ASSETS AND LIABILITIES

Assets

The Government's total stock of assets is estimated to be around $393.0 billion at 30 June 2014, increasing to $414.6 billion in 2014-15 and $506.1 billion by the end of the forward estimates.

The Government's financial assets are estimated to be $279.8 billion at 30 June 2014, increasing to $297.4 billion in 2014-15 and $380.8 billion by the end of the forward estimates.

The Government's non-financial assets are estimated to be $113.2 billion at 30 June 2014, increasing to $117.2 billion in 2014-15 and $125.3 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 Investment Mandate for the Future Fund sets a benchmark return of at least 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 first contribution to the Future Fund on 5 May 2006, the return has been 6.8 per cent per annum.

At 31 March 2014, the Future Fund's return for the financial year to date was 9.8 per cent.

The Future Fund was valued at $97.6 billion at 31 March 2014.

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 13 shows changes in the asset allocation of the Future Fund over 2013-14.

Table 13: Asset allocation of the Future Fund

Asset class	30 June 2013 $m	31 March 2014 $m
Australian equities	8,596	9,972
Global equities	27,473	31,574
Private equity	6,450	7,777
Property	5,354	5,140
Infrastructure	7,231	7,692
Debt securities	13,869	11,532
Alternative assets	14,764	13,295
Cash	5,152	10,592
Total Future Fund assets	88,889	97,573

Asset Recycling Fund

The Asset Recycling Fund (ARF) to be established on 1 July 2014 will provide a dedicated vehicle for providing funding and financial incentives primarily to the States and Territories to invest in infrastructure, including under the *Asset Recycling Initiative*.

The ARF will be seeded with $5.9 billion of capital from uncommitted balances of the Building Australia Fund (BAF) and Education Investment Fund (EIF). Further contributions to the Fund will be made from proceeds from the sale of Medibank Private and other privatisations.

Drawdowns from the ARF will be made from capital and net earnings. Such drawdowns will primarily fund payments to States and Territories through the Council of Australian Governments (COAG) Reform Fund, governed by the National Partnership Agreements that will include those for the Asset Recycling Initiative and Land Transport Infrastructure Projects.

The ARF will be managed by the Future Fund Board of Guardians. The Treasurer and Minister for Finance will set an investment mandate for the Fund which will provide broad direction to the Board in relation to its investment strategy.

The BAF and the EIF will be subsequently abolished on 1 January 2015. Remaining committed milestone payments of the BAF and EIF will be transferred to consolidated revenue to continue to be paid based on contractual obligations under the responsibility of the relevant department.

Medical Research Future Fund

The Government will establish the Medical Research Future Fund (MRFF) on 1 January 2015 to provide additional funding for medical research from 2015-16, primarily through payments to the National Health and Medical Research Council.

Contributions to the MRFF will come from $1 billion uncommitted funds within the Health and Hospitals Fund (HHF), and the amounts equal to the estimated value of health function savings measures published in the 2014-15 Budget until the Fund reaches a target capital level of $20 billion. That is, every dollar of savings in health in this budget will be given to the MRFF for the next six years, until the MRFF reaches $20 billion.

Net earnings on MRFF capital for a given financial year will be available for drawdown the following financial year. Payments met from drawdowns will be determined through the annual Budget process. The capital of the Fund will be preserved in perpetuity.

The MRFF will be managed by the Future Fund Board of Guardians. The Treasurer and Minister for Finance will set an investment mandate for the Fund which will provide broad direction to the Board in relation to its investment strategy.

The HHF will be abolished on 1 January 2015. Remaining committed milestone payments of the HHF will be transferred to consolidated revenue to continue to be paid based on contractual obligations under the responsibility of the Department of Health.

DisabilityCare Australia Fund

The DisabilityCare Australia Fund (DCAF) will be established by 1 July 2014 to assist the Commonwealth and the State and Territory governments with spending directly related to the National Disability Insurance Scheme (NDIS). This is consistent with the commitment by governments to roll out the NDIS across Australia.

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 from 1 July 2014. The investments of the DCAF will be managed by the Future Fund Board of Guardians. The Treasurer and Minister for Finance will set an Investment Mandate for the DCAF which will provide guidance to the Board in relation to its investment strategy for the Fund. The Investment Mandate will outline the benchmark return and the risk profile of the DCAF.

A fixed amount of the money flowing into the DCAF each year will be set aside for the State and Territory governments consistent with the *DisabilityCare Australia Fund Act 2013*. In 2014-15, this fixed amount will be $825 million. Thereafter, the amount to be set aside for the States and Territories in the DCAF will be indexed annually by 3.5 per cent over 10 years.

The State and Territory governments will be able to draw down from the DCAF when they meet key conditions such as agreement to fully roll out the NDIS and milestones relating to the participation of people with significant and permanent disability in the scheme. The balance of the DCAF, after taking into account allocations to the States and Territories, will be available to the Commonwealth to assist with meeting the Commonwealth's contribution to the NDIS.

Residential mortgage-backed securities

During the global financial crisis, the Australian Government directed the AOFM to invest in high-quality AAA-rated residential mortgage-backed securities (RMBS) to support competition from smaller lenders in residential mortgage and small business lending markets. As a result, the AOFM directly invested $15.5 billion in high-quality RMBS.

Conditions in the Australian securitisation market have improved substantially since the introduction of the AOFM programme. 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 former Government announced on 10 April 2013 that the program would close for new investment.

Conditions have continued to improve since then. More than $25 billion of new RMBS was issued in 2013, the highest in any calendar year since the crisis. Consistent with the ongoing market recovery and increased demand for RMBS, the AOFM has sold close to $850 million (in amortised face value terms) of its holdings over the past 12 months. As at the end of April 2014, the AOFM held $6.7 billion (in amortised face value terms) of RMBS. The amortised face value of RMBS held by the AOFM is projected to be $1.6 billion by the end of 2017-18.

The AOFM and the Treasury will continue to monitor conditions in the RMBS market closely.

National Broadband Network

The Government is changing the National Broadband Network (NBN) to ensure it will be delivered faster and at lower cost to the community. The Government has instructed NBN Co Limited to continue to progress the fibre-to-the-premises, fixed wireless and satellite rollouts while it undertakes a series of reviews to assess current progress and ultimately re-design the rollout of the NBN to Australian communities.

The Government has adopted the recommendation of its Strategic Review to pursue a multi-technology mix rollout for the NBN. This approach incorporates fibre-to-the-premises, fibre-to-the-node, hybrid-fibre coaxial cable, fixed wireless and satellite technologies in the rollout mix.

The Government is also in the process of re-negotiating the Definitive Agreements with Telstra and Optus. These agreements secure access to existing fixed-line infrastructure. Their revision will reflect the Government's changes to the NBN.

Reflecting these changes, NBN Co's equity requirements have been revised. Equity from the Government in 2013-14 has reduced from $3.5 billion to $3.4 billion. Over the life of the project, the Government's equity contribution to NBN Co will be capped at $29.5 billion.

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 $25.2 billion at 30 June 2014, which is $0.3 billion lower than projected in the 2013-14 MYEFO. The value of HELP is projected to grow to $43.6 billion in 2016-17, which is around $2.1 billion higher than estimated in the 2013-14 MYEFO, and to reach $51.4 billion by the end of the forward estimates.

This growth is largely a result of the estimated underlying increase in university commencements over the forward estimates, deregulation of the higher education sector, and the reduction in subsidies for Commonwealth supported places.

From 1 January 2016, the Government will fully deregulate higher education by removing fee caps and expanding the demand-driven system to bachelor and sub-bachelor courses at all approved higher education providers. Supported students will continue to be able to defer the costs of their studies through HELP.

In addition, from 1 January 2016, the Government will rebalance student and Commonwealth contributions towards a new student's course fees by reducing subsidies for Commonwealth-supported places by 20 per cent on average.

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).

The CEFC Act provides the CEFC with $10 billion over five years to invest in renewable energy, low-emissions technology and energy efficiency projects.

Investment decisions are made by an independent board consistent with the CEFC Act and the CEFC's investment mandate.

The Australian Government has announced that it will abolish the CEFC.

Legislation to abolish the CEFC and transfer the CEFC's existing assets and liabilities to the Commonwealth is currently before Parliament. The Government will honour all payments that are necessary as part of meeting our contractual obligations to committed investments. These obligations will be met from the CEFC's existing funding, which will be transferred to a new CEFC transitional special account.

Liabilities

The Government's total liabilities are estimated to be $579.4 billion at 30 June 2014, increasing to $626.6 billion in 2014-15 and $733.4 billion by the end of the forward estimates.

The Government's major liabilities are CGS on issue and public sector employee superannuation liabilities. For further information on CGS on issue, see the Debt Statement.

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. As set out in Box 1, the Government's superannuation liability is estimated to be around $157 billion at 30 June 2014 and $243 billion at 30 June 2050.

The Australian Government has never fully funded its superannuation liabilities in relation to defined benefit schemes. For civilian employees, the major defined benefit schemes are the Commonwealth Sector Superannuation Scheme (CSS) and the Public Sector Superannuation Scheme (PSS). These schemes were closed to new members in 1990 and 2005 respectively. The Public Sector Superannuation accumulation plan (PSSap) was introduced on 1 July 2005 and provides fully funded accumulation benefits for new civilian employees from that date.

For military personnel, the major defined benefit schemes are the Defence Force Retirement and Death Benefits Scheme (DFRDB) and the Military Superannuation and Benefits Scheme (MSBS). The DFRDB was closed to new entrants in 1991.

The Government has decided to close the MSBS from 1 July 2016 (see Box 1).

The Government has also decided to enhance the indexation of Defence Forces Retirement and Benefits (DFRB) Scheme and DFRDB benefit payments from 1 July 2014 for superannuants aged 55 and over. This has increased the unfunded liability by $5.1 billion at 1 July 2014.

Even though the civilian and military schemes will all be closed from 1 July 2016, the value of the Government's unfunded superannuation liability is projected to continue growing (in nominal terms) into the immediate future — although it is projected to decrease as a proportion of GDP — and is forecast to reach $181 billion by the end of the forward estimates. The increase in the liability partly results from the time value of money which recognises future benefits being closer to maturity each year. It also results from the accruing entitlements to current members of the civilian and military defined benefit 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 the volatility that would occur by using current market yields on government bonds which continually change. Consistent with the latest Long Term Cost Reports for the civilian and military schemes, the discount rate currently applied is 6 per cent per annum. This rate is in the context of a long-term assumed rate of CPI inflation of 2.5 per cent per annum.

Civilian defined benefit schemes

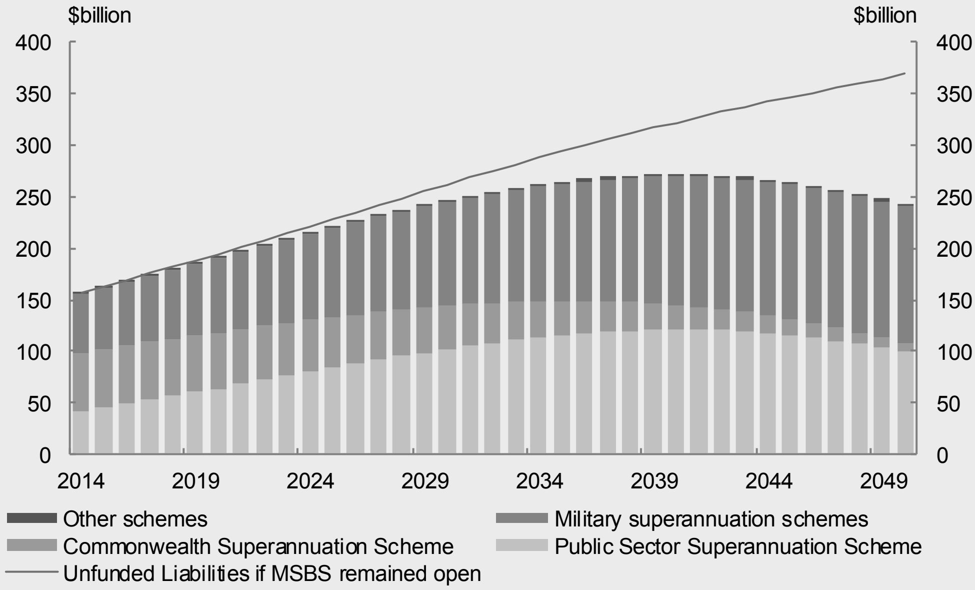
Changes in member behaviour, including members increasing their member contributions and increasingly taking more of their benefit as a pension rather than as a lump sum, have also increased the liability in 2013-14 by around $3 billion compared to previous projections.

Box 1: Policy changes to military superannuation arrangements

The Government's decision to close the MSBS to new military personnel from 1 July 2016 will reduce the Government's unfunded liability by $126 billion by 2050.

Chart 5 below shows, without the policy change, the Government's projected unfunded superannuation liability would be $369 billion by 2050. As a result of the decision to close the MSBS, the Government's unfunded superannuation liability is projected to be $243 billion by 2050.

Chart 5: Decrease in projected defined benefit superannuation liabilities as a result of the closure of the MSBS



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 *Statement 9: Australian Government Budget Financial Statements*).

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 2014-15 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. For the first time, additional disclosures on loans over $200 million have been included.

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 2014-15 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.

The Australian economy is forecast to grow a little below its trend rate over the forecast period. Global risks remain weighted to the downside while domestic risks are evenly balanced. 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 expense and revenue forecasts. For example, over the past year weaker than expected growth in wages has been reflected in weaker than expected tax revenue.

In addition, revenue forecasting relies on the observed historical relationships between the economy, tax bases and tax revenues. Such relationships may shift as conditions change and present a further risk to the estimates. For example, losses incurred during the global financial crisis have posed particular challenges in estimating both the quantum and timing of loss utilisation. Revenue forecasts also incorporate costings for new policies which also typically have a margin of uncertainty.

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 Australian 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 has 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 2013-14* (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. Some financial information in the text may not add to totals due to rounding. 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 other Government entities.

Table 1 outlines how fiscal risks, assets and liabilities and contingent assets and liabilities are disclosed in the Budget. The 2014-15 Budget increases disclosure around loans.

Table 1: Disclosure of fiscal risks, contingent assets and contingent liabilities, and assets and liabilities in the Budget Papers

Category	Type[(a)]	Disclosure
Fiscal Risks	Fiscal Risks	Statement of Risks
Contingent assets and contingent liabilities	Significant contingent assets and liabilities considered remote[(b)]	Statement of Risks
	Unquantifiable contingent assets and liabilities that are improbable but not remote	Statement of Risks
	Quantifiable contingent assets and liabilities that are improbable but not remote	Statement of Risks
	Contingent assets and liabilities excluded on the basis of immateriality[(c)]	None
Assets and liabilities	Assets and liabilities that are probable and can be reliably measured (Additional disclosure to increase transparency on loans over $200 million has been included in the Statement of Risks for the first time in the 2014-15 Budget)	Balance sheet[(d)]
	Assets and liabilities that are probable but have an uncertain timing or amount (provisions)	Balance sheet

(a) Items that are described as probable have a 50 per cent or higher chance of occurrence.
(b) Significant contingent assets and liabilities considered remote, whilst previously reported in the Statement of Risks, are separately identified under a new heading for the first time. This is consistent with reporting in the financial statements of departments and the consolidated financial statements.
(c) Only 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 considered material and disclosed in this Statement.
(d) Unearned income from charging guarantee fees is shown as a liability in the balance sheet.

ECONOMIC AND OTHER PARAMETERS

Changes in economic parameters represent a risk to the estimates included in the Budget. The realisation of any of the domestic or internationally based risks discussed in Statement 2 could potentially affect the Budget estimates. 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. Consistent with Government policy, the Budget estimates include the impact of the repeal of the carbon tax and the minerals resource rent tax from 1 July 2014. The timing of the passage of the repeal bills beyond 1 July 2014 could cause variations in the revenue forecast for these taxes.

The estimates and projections of revenue are subject to a number of general risks that can affect taxation collections. These general risks include failure of the tax system to keep pace with changes in the business environment, tax avoidance, court decisions, Australian Taxation Office rulings and the outcome of compliance programmes. 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 programmes, which form the bulk of the Government's expenses, can fluctuate significantly with economic and social conditions. If changes to these conditions are not anticipated this can have major effects on expense levels. For example, an expected increase in the number of persons 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 in 2014-15. Funding is considered on a year-by-year basis and the forward estimates do not provide for extensions of currently approved operations beyond 2014-15. This is consistent with past practice. In the case of Operation Slipper and its supporting operation, Operation Accordion, funding has been agreed to 31 December 2014. The Department of Defence will likely have additional funding requirements for Afghanistan operations after 2014.

Effective 19 July 2013, Australia has made up to A$1 billion available to the Government of Indonesia in the form of a standby loan facility, to be drawn down should Indonesia be unable to raise sufficient funds at reasonable interest rates on global capital markets due to the impact of 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 is available to Indonesia 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. Not all costs associated with delivery of the commitments are available at this time.

The introduction of a 1500 gigalitre (GL) cap on Australian Government water buybacks comes with a potential, but currently unquantifiable, fiscal risk for the Government. If there is a substantial shortfall in sustainable diversion limit (SDL) adjustments from supply measures, then the cap on water buybacks will be reached and other potentially more expensive means of water recovery will need to be used to meet SDLs. It will not be possible to identify whether this risk will be realised, and what the financial implications are, until the SDL adjustment mechanism operates in 2016.

There are a significant number of measures which impact on the Budget aggregates that 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 2014. In some cases, other dates are used and those are noted in the relevant section.

Table 2: Summary of contingent liabilities and contingent assets in the Statement of Risks since the 2013-14 Budget, 2013 PEFO and the 2013-14 MYEFO[(a)]

Significant remote contingencies[(b)]	Status	Category[(c)(d)(e)]
Agriculture		
Compensation claims arising from suspension of livestock exports to Indonesia	Modified	Other
Communications		
NBN Co Limited — Equity Agreement	Modified	Guarantee
Telstra Financial Guarantee	Modified	Guarantee
Optus Financial Guarantee	Removed	-
Termination of the funding agreement with OPEL Network Pty Ltd	Modified	Other
Defence		
ADI Limited — Officers' and Directors' indemnities	Modified	Indemnity
Defence indemnities and remote contingencies	Modified	Indemnity
Litigation cases	Modified	Other
Industry		
Liability for damages caused by space activities	Modified	Other
Infrastructure and Regional Development		
Maritime Industry Finance Company Limited — Board Members' Indemnity	Modified	Indemnity
Moorebank Intermodal Company Limited — Board Members' Indemnity	Modified	Indemnity
Tripartite deeds relating to the sale of federal leased airports	Modified	Other
Treasury		
Financial Claims Scheme	Modified	Guarantee
Guarantee of State and Territory borrowing	Modified	Guarantee
Guarantee Scheme for Large Deposits and Wholesale funding	Modified	Guarantee
Guarantees under the *Commonwealth Bank Sale Act 1995*	Modified	Guarantee
Reserve Bank of Australia — guarantee	Modified	Guarantee
Contingent liabilities — unquantifiable		
Agriculture		
Compensation claims arising from equine influenza outbreak	Modified	Other
Emergency pest and disease response arrangements	Unchanged	Other
Attorney-General's		
Native Title agreements — access to geospatial data	Unchanged	Indemnity
Australian Victims of Terrorism Overseas Payment	Unchanged	Other
Disaster Recovery	New	Other
Native Title costs	Unchanged	Other
Communications		
NBN Co Limited — Board Members' Insolvency Indemnity	Unchanged	Indemnity
Defence		
Cockatoo Island Dockyard	Modified	Indemnity
Land decontamination, site restoration and decommissioning of Defence assets	Modified	Other
Defence non-remote contingent liabilities	Modified	Other
Employment		
Job Services Australia — Employment Pathway Fund	Unchanged	Other
Indemnity provided to the Administrator and the Assistant Administrators of the Health Services Union	Removed	-

Table 2: Summary of contingent liabilities and contingent assets in the Statement of Risks since the 2013-14 Budget, 2013 PEFO and the 2013-14 MYEFO[(a)] (continued)

Contingent liabilities — unquantifiable (continued)		
Environment		
Kyoto Protocol Emissions Target	Removed	-
End of lease at the former National Halon Bank site, Braybook, Victoria	Removed	-
The Murray-Darling Basin Authority reform — additional net costs	Removed	-
Finance		
ASC Pty Ltd — Directors' indemnities	Unchanged	Indemnity
Commonwealth Superannuation Corporation — immunity and indemnity	Unchanged	Indemnity
Future Fund Management Agency and Future Fund Board of Guardians — indemnity	Unchanged	Indemnity
Googong Dam	Unchanged	Indemnity
Indemnities for the Reserve Bank of Australia and private sector banks	Unchanged	Indemnity
Indemnities relating to other former asset sales, privatisations and information technology outsourcing projects	Unchanged	Indemnity
Australian Government general insurance fund — Comcover	Modified	Other
Australian Government domestic property	Unchanged	Other
Litigation — Davis Samuel case	Unchanged	Other
Foreign Affairs and Trade		
Export Finance and Insurance Corporation — board member and senior management indemnities	Unchanged	Indemnity
Health		
Australian Medical Association	Unchanged	Indemnity
Australian Red Cross Society — indemnities	Unchanged	Indemnity
Blood and blood products liability cover	Unchanged	Indemnity
CSL Ltd	Unchanged	Indemnity
Indemnities relating to vaccines	Unchanged	Indemnity
Medical Indemnity Exceptional Claims Scheme	Unchanged	Indemnity
New South Wales Health Administration Council — indemnity	New	Indemnity
Tobacco plain packaging litigation	New	Other
Immigration and Border Protection		
Northern Patrol and Response — Triton	Modified	Indemnity
Southern Ocean Maritime Patrol and Response Programme	Modified	Indemnity
Immigration Detention Services by state and territory governments — liability limit	Modified	Indemnity
Immigration and Detention operations — liability limit	Removed	-
Regional Processing Centres — liability limit	Removed	-
Industry		
Australian Nuclear Science and Technology Organisation — indemnity	Unchanged	Indemnity
British atomic test site at Maralinga	Modified	Indemnity
Gorgon liquefied natural gas and carbon dioxide storage project — long-term liability	Modified	Indemnity
Snowy Hydro Limited — water releases	Unchanged	Indemnity
Liability for costs incurred in a national liquid fuel emergency	Modified	Other
Infrastructure and Regional Development		
Indemnity provided to the New South Wales Rural Fire Fighting Service in relation to the Jervis Bay Territory	Unchanged	Indemnity

Table 2: Summary of contingent liabilities and contingent assets in the Statement of Risks since the 2013-14 Budget, 2013 PEFO and the 2013-14 MYEFO[(a)] (continued)

Contingent liabilities — unquantifiable (continued)		
Infrastructure and Regional Development (continued)		
Australian Maritime Safety Authority incident costs	Unchanged	Other
Social Services		
Business Services Wage Assessment Tool	Unchanged	Other
National Disability Insurance Scheme	Unchanged	Other
Treasury		
Terrorism insurance — commercial cover	Unchanged	Guarantee
Australian Taxation Office — constitutional challenge to the minerals resource rent tax	Removed	-
Contingent assets — unquantifiable		
Defence		
Defence non-remote contingent assets	Modified	Other
Health and Ageing		
Legal action seeking compensation from Sanofi	Unchanged	Other
Legal action seeking compensation from Wyeth	Unchanged	Other
Industry		
Wireless Local Area Network	Unchanged	Other
Contingent liabilities — quantifiable		
Defence		
Claims against the Department of Defence	Modified	Other
Environment		
Low Carbon Australia Limited — Board of Directors' and senior management indemnities	Modified	Indemnity
Foreign Affairs and Trade		
Export Finance and Insurance Corporation	Modified	Guarantee
Immigration and Border Protection		
Northern Maritime Patrol and Response — Ashmore Guardian	Removed	-
Social Services		
Accommodation Bond Guarantee Scheme	Modified	Guarantee
Treasury		
Australian Taxation Office — tax disputes	Modified	Other
International financial institutions — uncalled capital subscriptions	Modified	Other
International Monetary Fund	Modified	Other

(a) Detailed descriptions of these items are in the following text.
(b) All risks now categorised under the new heading 'Significant Remote Contingencies' have been classified as modified, even though the risk itself may not have materially changed.
(c) Guarantees — a guarantee is where one party promises to be responsible for the debt or performance obligations of another party should that party default in some way.
(d) Indemnities — an indemnity is a legally binding promise whereby a party undertakes to accept the risk of loss or damage another party may suffer.
(e) Other — contingent liabilities and assets which are not guarantees or indemnities.

SIGNIFICANT BUT REMOTE CONTINGENCIES

Agriculture

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 Australian Government is not currently a party to any litigated claims where legal liability for financial compensation is being claimed in relation to this suspension. No final quantum of damages has been calculated. The Department of Finance, 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.

Communications

NBN Co Limited — Equity Agreement

The Australian Government has entered into an Equity Funding Agreement with NBN Co. The Agreement formalises the Australian Government'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 Australian Government, 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 2014, NBN Co's termination liabilities were estimated at $5.7 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 2014, NBN Co had generated liabilities covered by the guarantee estimated at $2.9 billion. 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.

Termination of the funding agreement with OPEL Network Pty Ltd

Following the termination of its agreement with OPEL Network Pty Ltd (OPEL) under the Broadband Connect programme, the Australian Government made provision towards costs incurred by OPEL in producing its Implementation Plan. OPEL was wound up on 13 March 2009. Proceedings were commenced in the NSW Federal Court by the OPEL Liquidators and Optus on 5 September 2013 in respect of the termination of the funding agreement (including a claim relating to the costs for the preparation of the Implementation Plan).

Defence

ADI Limited — Officers' and Directors' indemnities

Under the sale agreements for ADI Limited, the Australian Government agreed to indemnify the Directors, officers and employees of ADI Limited 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.

Defence indemnities and remote contingencies

As at 31 March 2014, the Department of Defence carried 1,609 instances of quantifiable remote contingent liabilities valued at $3.8 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. In addition, the Department of Defence carries 14 contingent liabilities and one contingent asset that are unquantifiable and are considered remote.

As at 31 March 2014, the Defence Materiel Organisation carried 75 contingencies that are quantifiable, to the value of $2.8 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. In addition, the Defence Materiel Organisation carries 433 instances of contingencies (including Foreign Military Sales) that are unquantifiable and are considered remote. 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 where the matters are not able to be finalised by use of negotiation. The litigation includes common law liability claims, including alleged injuries from workplace systems, practices and conduct. These include claims arising out of reviews into Australian Defence Force and Defence culture. A number of claims have also been received for damage caused by the use of a Defence Practice Area.

Industry

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 Regional Development

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.

Moorebank Intermodal Company Limited — Board Members' Indemnity

The Australian Government has provided certain indemnities for the board members of the Moorebank Intermodal Company Limited (MIC) to protect them against civil claims relating to their employment and conduct as directors. The indemnities apply to the period of appointment as board members of the company. 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

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 Australian Government terminates the head lease to enable the financiers to correct the circumstances that triggered such a termination event. The tripartite deeds may require the Australian Government to pay financiers compensation as a result of its termination of the (head) lease. The Australian Government's contingent liabilities are considered to be unquantifiable and remote.

Treasury

Financial Claims Scheme

The Financial Claims Scheme provides depositors of authorised deposit taking institutions (ADIs) and claimants of general insurers (GIs) with timely access to their funds in the event of a financial institution failure.

Under the *Banking Act 1959* the scheme 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 31 December 2013, deposits eligible for coverage under the Scheme were estimated to be approximately $722.8 billion, compared to $692.3 billion at 30 June 2013, reflecting overall deposit growth in the financial system.

Under the *Insurance Act 1973* the scheme provides a mechanism for making payments to eligible beneficiaries with a valid claim against a failed general insurer.

In the very unlikely event of an ADI or general insurer failure, any payments made under the Financial Claims Scheme would be recovered through the liquidation of the failed institution. If there was a shortfall in the amount recovered through the liquidation of the failed institution, a levy could be applied to the relevant industry to recover the difference between the amount expended and the amount recovered in the liquidation.

From 2016, subject to the outcomes of the Financial System Inquiry, any payment under the Financial Claims Scheme relating to ADIs would initially be met from the Financial Stability Fund announced in the 2013 Economic Statement. In this case, a levy could be applied to ADIs to recover the difference between the amount expended and the amount recovered in the liquidation and from the Financial Stability Fund.

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 claimants will be made out of APRA's Financial Claims Scheme Special Account. Under the legislation, initial amounts available to meet payments and administer the Financial Claims Scheme, in the event of activation are $20.1 billion per institution.

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 2014, the face value of State and Territory borrowings covered by the guarantee was $19.0 billion, down from $21.0 billion at 31 October 2013.

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 then 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 28 March 2014, total liabilities covered by the Guarantee Scheme were estimated at $25.3 billion, down from $40.7 billion at 25 October 2013. This is made up of $2.3 billion of large deposits and $22.9 billion (down from $38.4 billion at 25 October 2013) of long-term wholesale funding. All guaranteed short-term wholesale funding matured in March 2011.

As at 28 February 2014, institutions participating in the Guarantee Scheme had paid fees of $4.4 billion since its inception.

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: $748.3 million is attributable to liabilities of the Commonwealth Bank of Australia, as at

31 December 2013, and $4.2 billion is attributable to liabilities of the Commonwealth Bank Officers' Superannuation Corporation, as at 31 December 2013.

Reserve Bank of Australia — guarantee

The Australian Government guarantees the liabilities of the Reserve Bank of Australia, 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 $60.4 billion, as at 2 April 2014, and the total guarantee is $91.7 billion ($65 billion at the *Mid-Year Economic and Fiscal Outlook 2013-14)*.

CONTINGENT LIABILITIES — UNQUANTIFIABLE

Agriculture

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.

Proceedings have commenced in the Federal Court of Australia by Maurice Blackburn Lawyers with Attwood Marshall Lawyers who represent a closed class of 586 applicants claiming damages as a result of the 2007 equine influenza outbreak. No final quantum of damages sought can be calculated. The Department of Finance which has responsibility for Comcover (the Australian Government's general insurance fund) has assumed responsibility for the potential claims under its insurance arrangements with the Department of Agriculture.

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 Australian Government is typically liable for 50 per cent of total government funding to respond to a disease or pest outbreak. Limited funding is provided in the forward estimates for the Australian Government's contribution under emergency response agreements with States and Territories. This funding is unlikely to be sufficient to meet the unquantifiable costs of a major outbreak or large scale emergency response exercise.

The Australian Government may be expected to contribute bilaterally 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 Australian Government 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 10-year period, usually by a levy.

Attorney-General's

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.

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 22 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.

Disaster Recovery

The Australian Government provides funding to States and Territories through the Natural Disaster Relief and Recovery Arrangements (NDRRA) to help pay for natural disaster relief and recovery costs. A State or Territory may claim NDRRA funding if a natural disaster occurs and State or Territory relief and recovery expenditure for that event meets the requirements set out in the NDRRA Determination. For major natural disasters, payments to individuals may be approved under the *Social Security Act 1991*. These include the Australian Government Disaster Recovery Payment and Disaster Recovery Allowance. As natural disasters and their impacts are unpredictable, the cost of future disasters is unquantifiable and not included in the forward estimates.

Further, while the current forward estimates for the programme are based on the best information available at the time of preparation, preliminary estimates of the cost of a disaster and the timing of expenditure are subject to change and the total cost of relief and recovery from these events may not be completely realised for some years. Estimates of all natural disasters are regularly reviewed and revised by the States and Territories as new information becomes available, and this, or the occurrence of future natural disasters, can in turn significantly affect the Australian Government's estimated NDRRA liability and payments.

Severe tropical cyclone Ita recently struck Far North Queensland. There is a risk that a preliminary estimate of the Government's NDRRA liability as a result of tropical cyclone Ita will not be available for some time, as Queensland continues to assess the cost of recovery from the event. The total cost of relief and recovery from this event is unlikely to be completely realised for some years.

Native Title costs

The Australian Government can assist State and Territory governments in meeting certain Native Title costs pursuant to *the Native Title Act 1993* (the NTA), including compensation costs. A National Partnership Agreement was executed in 2010 between the Australian Government and Victoria, under which the Australian Government provided a contribution towards the settlement of two native title claims. No other agreement has been entered into to date.

The Australian Government will also be liable for any compensation found to be payable under the NTA (and potentially also the Constitution) in respect of compensable acts for which the Australian Government 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.

Communications

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. 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.

Defence

Cockatoo Island Dockyard

On 13 October 2001, Cockatoo Island Dockyard (CODOCK) commenced proceedings against the Australian Government (Defence) in the NSW Supreme Court seeking full reimbursement from the Australian Government 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 Australian Government for its uninsured exposure to asbestos damages claims, plus profit of 7.5 per cent.

Land decontamination, site restoration and decommissioning of Defence assets

The Department of Defence (Defence) has made financial provision for the future estimates involved in land decontamination, site restoration and decommissioning of Defence assets where a legal or constructive obligation has arisen in relation to those underlying assets. For those decontamination, restoration and decommissioning activities for which there is no legal or constructive obligation, the potential costs have not been assessed and are unquantifiable. Where there is a possible legal or constructive obligation and potential costs are unquantifiable, these have been disclosed as a note to Defence's financial statements.

Defence non-remote contingent liabilities

The Department of Defence has 15 instances of contingencies that are unquantifiable.

Employment

Job Services Australia — Employment Pathway Fund

The estimates for the Department of Employment Job Services Australia (JSA) programme include 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 help them find and keep a job. Amounts are credited to the EPF based on a job seeker's assessed 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 that are not expected to be spent during the current contract period.

Finance

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.

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.

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 Australian Government; 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 information technology outsourcing projects

Ongoing indemnities have been given in respect of a range of asset sales, privatisations and information technology (IT) outsourcing projects that have been conducted by the Department of Finance (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.

Australian Government general insurance fund — Comcover

The Department of Finance (Finance) through Comcover, the Australian Government's general insurance fund, provides insurance and risk management services to the Australian Government general government sector. Finance's liability for outstanding claims, which includes the expected future cost of claims notified and claims incurred but not reported, is subject to inherent uncertainty in the estimation process.

Australian Government domestic property

The Australian Government's domestic property portfolio managed by the Department of Finance has approximately 100 properties. A small number of these have had potential remediation issues identified, which are currently the subject of further investigation. Except for one property at Lucas Heights NSW, none of the remaining properties with potential remediation issues has had a provision recognised as the conditions for neither legal nor constructive obligations have been met, nor is a reliable estimate of the obligation currently possible.

Litigation — Davis Samuel case

The Australian Government was subject to a counter-claim for damages in legal action before the Australian Capital Territory Supreme Court. The Australian Government is seeking to recover funds which were misappropriated from the former Department of Finance and Deregulation during 1998. The judgment, handed down on 1 August 2013, dismissed the counter claim against the Australian Government and found in favour of the Australian Government in its claims against the defendants. Final orders are yet to be made. The Court extended the time for appeals to 28 days after final orders are made.

Foreign Affairs and Trade

Export Finance and Insurance Corporation — board member and senior management indemnities

The Australian Government has provided 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

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 may 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 Behring (Australia) Ltd, a subsidiary of CSL Ltd, which has operated since 1 January 2010, includes a requirement that the National Blood Authority make a defined payment to CSL Behring (Australia) Ltd, in certain circumstances only, in the event that the volume of plasma supplied annually to CSL Behring (Australia) Ltd 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.

New South Wales Health Administration Council — indemnity

The National Health Funding Body (NHFB) provided an indemnity to the New South Wales government through the New South Wales Health Administration Council (NSW HAC), in relation to a state funding pool account with the Reserve Bank of Australia. The indemnity includes liabilities or claims arising in relation to the NHFB in two respects:

(i) liabilities or claims arising from acts or omissions of NHFB staff as users of pool account information; and

(ii) liabilities or claims arising from unauthorised access to the banking services or system from NHFB premises.

NSW HAC has provided a reciprocal indemnity for the actions of staff of the NHFB to the Reserve Bank of Australia.

Tobacco plain packaging litigation

In 2014-15, the Government will continue to fund the defence of legal challenges to the tobacco plain packaging legislation in international forums. Further information about these cases has not been disclosed on the grounds that it may prejudice the outcomes of these cases or may relate to commercial information.

Immigration and Border Protection

Northern Maritime Patrol and Response — Triton

The Australian Government has entered into a contractual arrangement with Gardline Australia Pty Ltd until 31 December 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 vessel.

Southern Ocean Maritime Patrol and Response Programme

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 contract will remain in force until 31 December 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.

Immigration detention services by state and territory governments — liability limit

The Department of Immigration and Border Protection (DIBP) has negotiated arrangements with a number of state and territory governments for the provision of various services (including health, education, corrections and policing services) to immigration detention facilities and people in immigration detention. Some jurisdictions are seeking indemnification by the Australian Government for the provision of those services.

In December 2013, the Minister for Immigration and Border Protection wrote to the Minister for Finance seeking agreement under regulation 10 of the Financial Management and Accountability Regulations 1997 (FMA Regulations) for expenditure that may become payable under those arrangements.

In February 2014, the Minister for Finance agreed that DIBP may consider entering arrangements which include the proposed indemnities, based on the framework parameters. The Minister for Finance also proposed that the framework agreed by DIBP and the Department of Finance be varied to include all states and territories for the police and support services stream.

Jurisdictions	Service Streams			
	Health	Education	Corrections	Police
New South Wales	N/A	$5 million per claim or event	Uncapped liability	$5 million per claim or event
Victoria/Western Australia	Uncapped liability	Uncapped liability	N/A	$5 million per claim or event
Queensland/Tasmania/ Australian Capital Territory/Northern Territory	N/A	$5 million per claim or event	N/A	$5 million per claim or event
South Australia	$5 million per claim or event	$5 million per claim or event	N/A	$5 million per claim or event

Industry

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.

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 — Maralinga section 400 — to the site's Traditional Owners, Maralinga Tjarutja. Under the terms of the *Maralinga Nuclear Test Site Handback Deed*, 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 in principle 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 2014-15.

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.

Liability for costs incurred in a national liquid fuel emergency

The Australian Government has responsibility for the *Liquid Fuel Emergency Act 1984* (the Act). In addition, the Australian Government and State and Territory governments have entered into an inter-governmental agreement in relation to a national liquid fuel emergency (IGA 2006). Under the IGA, the Australian Government agrees to consult IGA parties on a likely shortage and, if necessary after those consultations, to advise the Governor-General to declare a national emergency under the Act.

The IGA also 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.

Infrastructure and Regional Development

Indemnity provided to the New South Wales Rural Fire Fighting Service in relation to the Jervis Bay Territory

The Department of Infrastructure and Regional Development is required to engage the NSW Rural Fire Service (NSW RFS) to provide fire management support for the volunteer brigade located in the Jervis Bay Territory (JBT). To provide this service, the NSW RFS requires the Australian Government to provide an uncapped indemnity whereby the Australian Government would be liable for any damage caused as a result of the actions of the NSW RFS in the JBT while fighting a fire. The likelihood of an event occurring that may result in a liability for the Australian Government has been assessed as very remote and the risks are currently mitigated through the training and professional qualifications of the NSW RFS staff.

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.

Social Services

Business Services Wage Assessment Tool

The Australian Government may potentially become liable for a significant range of costs following the Full Federal Court ruling (21 December 2012) that the use of the Business Services Wage Assessment Tool (BSWAT) to assess the wages of two intellectually disabled employees constituted unlawful discrimination under the *Disability Discrimination Act 1992*.

The Australian Government's potential liability cannot be quantified at this time.

National Disability Insurance Scheme

In bilateral negotiations, the Australian Government has committed to provide temporary, untied financial assistance to some jurisdictions that expect to have their GST entitlements adversely affected during the transition to the National Disability Insurance Scheme (NDIS).

Under this commitment, the expected liability will depend on a range of factors including when all jurisdictions reach full scheme and any impact resulting from the Commonwealth Grants Commission's 2015 Methodology Review, scheduled to be completed in February 2015. The Review will consider the most appropriate treatment of disability services for GST distribution purposes, both during the transition to the NDIS and once the full scheme is operating nationally. Any impact on the Australian Government is not expected to occur before 2016-17.

Treasury

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

Defence

Defence non-remote contingent assets

The Department of Defence has four instances of contingent assets that are unquantifiable.

Health

Legal action seeking compensation from Sanofi

The Department of Health has initiated legal action to seek compensation from Sanofi, 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 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

Wireless Local Area Network

The Commonwealth Scientific and Industrial Research Organisation (CSIRO) has ongoing patent infringement proceedings in the United States of America and Europe against multiple defendants. The patents cover CSIRO's invention of a wireless local area network (WLAN). CSIRO expects to receive additional revenue which would exceed the associated legal costs.

CONTINGENT LIABILITIES — QUANTIFIABLE

Defence

Claims against the Department of Defence

The Department of Defence (Defence) has 28 instances of non-remote, quantifiable contingent liabilities in respect of claims on the Department valued at $63.1 million. The estimated figure is determined by conducting an objective analysis of the probable amount payable for all matters managed by the members of Defence's Legal Services Panel and those being handled in-house by Defence Legal Division. However, as an estimate, the exact amount payable under those claims is uncertain. Defence is defending the claims or is trying to resolve them by recourse to alternative dispute resolution measures.

Environment

Low Carbon Australia Limited — Board of Directors' and senior management indemnities

The Australian Government has provided indemnities to directors and company officers of Low Carbon Australia Limited (LCAL). A total of seven indemnity deeds have been executed. Each indemnity covers liability incurred by a director or officer arising from the implementation of the merger of LCAL with the Clean Energy Finance Corporation. An aggregate cap of $100 million to cover all claims has been established, and the indemnities will operate for seven years from execution.

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 2014, the Government's total contingent liability was $3.4 billion, representing an increase of $0.1 billion from that reported at the *Mid-Year Economic and Fiscal Outlook 2013-14*. The $3.4 billion contingent liability comprises EFIC's liabilities to third parties ($2.3 billion) and EFIC's overseas investment insurance, contracts of insurance and guarantees ($1.0 billion). Of the total contingent liability, $2.7 billion relates to EFIC's Commercial Account and $0.7 billion relates to the National Interest Account.

Social Services

Accommodation Bond Guarantee Scheme

The Accommodation Bond Guarantee Scheme (the Guarantee Scheme) guarantees the repayment of aged care residents' accommodation bond, entry contribution balances and, from 1 July 2014, refundable accommodation deposits and contributions if the approved provider becomes insolvent or bankrupt and defaults on its refund obligations. In return for the payment, the rights that the resident had to recover the amount from their approved provider are transferred to the Australian Government so it can pursue the approved provider for the funds. In cases where the funds are unable to be recovered, the Australian Government may levy all approved providers holding bonds to meet any shortfall. On 30 June 2013, the maximum contingent liability, in the unlikely event that all providers defaulted, was approximately $14.2 billion.

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.

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. As a result, in most cases it is not possible to estimate with any reliability the likely financial impact of current disputes. The estimated aggregate value of tax in dispute as at 31 March 2014, for which a provision has not been made, is $4.6 billion.

Outcomes of dispute resolution processes are included in the Commissioner of Taxation's Annual Report each year. This may include disputes resolved through objections, settlements and court and tribunal decisions. It may also include amounts owed by taxpayers that are subject to dispute but not finalised.

International financial institutions — uncalled capital subscriptions

The Australian Government has held an uncalled capital subscription 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. As part of this process, Australia will increase its uncalled capital subscription so that it totals US$3.6 billion (estimated value A$3.9 billion as at 31 March 2014).

The Australian Government has also held an uncalled capital subscription in the European Bank for Reconstruction and Development (EBRD) since 1991. Australia 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$354.2 million as at 31 March 2014).

The Australian Government has further held an uncalled capital subscription in the Asian Development Bank (ADB) since 1966. Australia increased its uncalled capital subscription (effective 11 January 2010) to the ADB as part of its 2010 general capital increase, so that it totals US$7.0 billion (estimated value A$7.6 billion as at 31 March 2014).

Australia has further held an uncalled capital subscription in the Multilateral Investment Guarantee Agency of US$26.5 million (estimated value A$28.7 million as at 31 March 2014).

None of these international financial institutions has 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. The value of Australia's NAB credit arrangement is Special Drawing Rights (SDR, the IMF's unit of account) 4.4 billion (estimated value A$7.3 billion at 31 March 2014). 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 a proposed increase in IMF quotas comes into effect. The quota increase has not yet occurred, due to a delay in implementing the above agreement by the United States.

In addition to the NAB credit line, as part of a broad international effort to increase the resources available to the IMF, Australia has made available a SDR 4.6 billion, (approximately A$7.7 billion at 31 March 2014) contingent bilateral loan to the IMF. This loan entered into force following passage of enabling legislation in June 2013. 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 will be drawn upon by the IMF only if needed to supplement the IMF's quota and NAB resources and any loans 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.

GOVERNMENT LOANS

Loans are recorded as financial assets and accordingly the amounts advanced and repaid do not normally affect the budget aggregates of fiscal balance and underlying cash balance. Loans that are concessional (lower than market interest rate) or are agreed to be written off may result in an impact on fiscal balance in some circumstances.

The Government makes loans for policy purposes. All loans contain some element of credit risk that they will not be repaid in full, although in many cases this risk is small. Table 3 summarises Government loans estimated to exceed $200 million at 30 June 2014.

Table 3: Summary of Australian Government loans exceeding $200 million[(a)(b)]

Agency	Loan amount[(c)] ($m)	Borrower	Interest rate	Term
Department of Education				
Higher Education Loan Program	25,183	Eligible tertiary education students	Consumer Price Index (CPI)[(d)]	8.4 years*

Table 3: Summary of Australian Government loans exceeding $200 million[(a)(b)] (continued)

Agency	Loan amount[(c)] ($m)	Borrower	Interest rate	Term
Australian Office of Financial Management				
Commonwealth-State financing arrangements — Housing and Specific Purpose Capital	2,098	State and Northern Territory Governments	3.5-6 per cent	Up to 30 June 2042
Department of the Treasury				
International Monetary Fund New Arrangements to Borrow	950	International Monetary Fund	0.13 per cent at 31 March 2014	10 years
Clean Energy Finance Corporation				
Clean Energy Finance Corporation	865	Eligible entities undertaking clean energy technology projects	7 per cent	5-10 years
Department of Social Services				
Student Financial Supplement Scheme (SFSS)	624	Eligible recipients of Youth Allowance (student), Austudy and ABSTUDY	CPI	Various
Indigenous Business Australia				
Indigenous Home Ownership	584	Eligible Indigenous persons	4.7 per cent*	29.4 years*
Export Finance and Insurance Corporation				
Papua New Guinea Liquefied Natural Gas	269	Entities associated with the Papua New Guinea Liquefied Natural Gas project	Commercial — In-Confidence	Until 2026
Development Import Finance Facility	222	The Republic of Indonesia acting through its Ministry of Finance	Various	Various
Indigenous Land Corporation				
Voyages Indigenous Tourism Australia Pty Ltd	291	Voyages Indigenous Tourism Australia Pty Ltd	90 Day bank bill swap reference rate + 5 per cent	9 years, 11 months
Department of Social Services				
Zero Real Interest Loans	230	Residential aged care providers establishing new residential aged care facilities	CPI	12-22 years
Department of Agriculture				
Farm Finance Concessional Loans	210	State Governments	4.5 per cent	5 years

* Average

(a) The Government has decided to provide a concessional loan of up $2 billion to accelerate the delivery of the WestConnex Stage 2 project in Sydney. The loan would first be available for drawdown on 1 July 2015. Further details are provided in Budget Paper No. 2, *Budget Measures 2014-15*.

(b) The Government will provide income contingent concessional loans of $1.9 billion over four years from 2014-15 as part of its election commitment to establish the Trade Support Loans programme. Under the programme, eligible apprentices will be eligible to receive financial assistance of up to $20,000 over a four year apprenticeship. Apprentices will be required to commence repaying the loans when their income exceeds a minimum repayment threshold, consistent with arrangements applying to university students under the Higher Education Loan Program (HELP), and apprentices who successfully complete their training will receive a

20 per cent discount on the amount to be repaid. Further information on this measure is provided in Budget Paper 2, *Budget Measures 2014-15*.

(c) Loan amount is the estimated loan programme amounts outstanding as at 30 June 2014 in $ million.

(d) From 1 June 2016, debts will be indexed by a rate equivalent to the yields on 10 year Australian Government bonds, capped at 6.0 per cent per annum.

Higher Education Loan Program

The Higher Education Loan Program (HELP) is an income contingent loan programme that assists eligible tertiary education students with the cost of their fees and overseas study expenses. As at 30 June 2014, the fair value of loans outstanding is estimated to be $25.2 billion. The fair value takes into account the concessionality of HELP loans and makes an allowance for debt not expected to be repaid.

Debts are currently indexed annually by the Consumer Price Index. From 1 June 2016, debts will be indexed by a rate equivalent to the yields on 10 year Australian Government bonds, capped at 6 per cent per annum. Further details on this decision can be found in Budget Paper No. 2, *Budget Measures 2014-15.*

The repayment term depends on individual circumstances including the amount borrowed and each debtor's income. There were 1,823,288 HELP debtors as at 30 June 2013. The term of a HELP loan can only be determined for people who have fully repaid their debt. As at the end of June 2013, the average duration of HELP loans was 8.4 years.

Commonwealth-State Financing Arrangements — Housing and Specific Purpose Capital

From 1945 to 1989, the Australian Government made concessional advances to the State and Northern Territory Governments under Commonwealth-State financing arrangements for housing and for specific purpose capital. The advances are concessional fixed rate loans to be repaid over 53 years, with the last loans maturing in 2042. Annual payments, comprising both interest and principal repayment, are made by the States and the Northern Territory. As at 30 June 2014, the estimated amortised value of the advances is $2.1 billion.

The Australian Office of Financial Management manages the receipt of interest and principal repayments from the State and Northern Territory Governments.

International Monetary Fund New Arrangements to Borrow

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 has joined with other countries to increase its credit line under an expanded NAB. The NAB is a contingent loan to help ensure that the IMF has the resources available to maintain stability and support recovery in the global economy. The funds are drawn upon by the IMF as needed to supplement the IMF's usual quota resources and will be repaid in full with interest. As at 30 June 2014, loans outstanding are estimated to total $950 million.

The value of Australia's NAB credit arrangement is Special Drawing Rights (SDR, the IMF's unit of account) 4.4 billion (estimated value A$7.3 billion at 31 March 2014).

Clean Energy Finance Corporation

The Clean Energy Finance Corporation (CEFC) has developed a portfolio of loans and investments across the spectrum of clean energy technologies that in aggregate has an acceptable but not excessive level of risk relative to the sector as required under the *Clean Energy Finance Corporation Investment Mandate Directions 2012* (Investment Mandate). As at 30 June 2014, loans outstanding are estimated to total $865 million.

The CEFC's portfolio consists of predominantly senior ranking, secured loans, typically secured against assets such as buildings or council rates, or against energy generating assets such as wind or solar farms or biogas facilities.

The Government has announced its intention to abolish the CEFC. Legislation to abolish the CEFC and transfer the CEFC's existing assets and liabilities to the Commonwealth is currently before Parliament.

The CEFC has predominantly made loans as a co-financier either jointly or in consortiums with private sector financial institutions. Interest rates vary with an average expected return of approximately 7 per cent. Loans have various maturity dates, typically in the range of 5-10 years.

Student Financial Supplement Scheme

The Student Financial Supplement Scheme (SFSS) was a programme whereby student income support recipients could trade one dollar of entitlement for two dollars provided as an income contingent loan. The programme closed for new recipients on 1 January 2004. The outstanding debt relates to debtors who received loans prior to 2004. As at 30 June 2014, loans outstanding are estimated to total $624 million.

Indigenous Home Ownership

Indigenous Business Australia (IBA) delivers flexible loans with concessional interest rates to improve Indigenous home ownership across Australia, including in remote Indigenous communities. As at 30 June 2014, loans outstanding are estimated to total $584 million.

Export Finance and Insurance Corporation

The loan in support of the Papua New Guinea Liquefied Natural Gas (PNG LNG) project involves the development, construction, operation and maintenance of a LNG liquefaction plant, gas production and processing, facilities, onshore and offshore pipelines, associated ancillary facilities and infrastructure. As at 30 June 2014, the loan amount outstanding is estimated to total $269 million.

The Development Import Finance Facility (DIFF), administered by the Export Finance and Insurance Corporation (EFIC) on behalf of the former Australian Agency for International Development (AusAID), provided concessional loans to Indonesia to deliver development benefits to that country. The DIFF was discontinued in 1996 with no further concessional loans being provided. As at 30 June 2014, loans outstanding are estimated to total $222 million.

Indigenous Land Corporation

The Indigenous Land Corporation (ILC) purchased Ayers Rock Resort for $292 million in May 2011 and immediately on-sold it to its wholly owned subsidiary Voyages Indigenous Tourism Australia Pty Ltd (VITA) creating an intercompany loan that is partly funded by borrowings. The interest rate is set at the 90 day bank bill swap reference rate plus 5 per cent, and is reset six monthly. As at 30 June 2014, the loan amount outstanding is estimated to total $291 million.

Zero Real Interest Loans

The Zero Real Interest Loans programme provided loans with a zero real interest rate to residential aged care providers to build or expand facilities in areas of high need where investment was otherwise unlikely. Applications for these loans are now closed. As at 30 June 2014, loans outstanding are estimated to total $230 million.

Farm Finance Concessional Loans

The Farm Finance Concessional Loans Scheme provides up to $420 million over two years for the provision of concessional loans to eligible primary production businesses experiencing financial difficulties resulting from acute levels of debt. Loans will be issued for the purpose of productivity enhancements and debt refinancing. As at 30 June 2014, loans outstanding are estimated to total $210 million.

Loans are made to State governments who, through regional delivery agents, on-lend to primary production businesses. Currently the interest rate is at 4.5 per cent, but is reviewed on a six monthly basis and revised in accordance with material changes in the five-year Commonwealth bond rate. Loans will be given for a term of five years, with an exceptional circumstances clause in some jurisdictions, which allows a maximum two year extension to the loan at commercial rates.

STATEMENT 9: AUSTRALIAN GOVERNMENT BUDGET FINANCIAL STATEMENTS

Consistent with the *Charter of Budget Honesty Act 1998* (the Charter), the Government has produced a single set of financial statements for the Australian Government general government sector (GGS), the public non-financial corporations (PNFC) sector and the total non-financial public sector (NFPS). The financial statements comply with both Australian Bureau of Statistics' (ABS) accrual Government Finance Statistics (GFS) and Australian Accounting Standards (AAS), with departures disclosed. These statements are:

- an operating statement, including other economic flows, which shows net operating balance and net lending/borrowing (fiscal balance);
- 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.

The statements reflect the 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.

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STATEMENT 9: AUSTRALIAN GOVERNMENT BUDGET FINANCIAL STATEMENTS

Table 1: Australian Government general government sector operating statement

		Estimates			Projections	
		2013-14	2014-15	2015-16	2016-17	2017-18
	Note	$m	$m	$m	$m	$m
Revenue						
Taxation revenue	3	350,956	368,814	396,055	422,875	449,509
Sales of goods and services	4	8,853	8,928	9,170	11,347	15,969
Interest income	5	3,445	4,229	4,731	5,128	5,565
Dividend income	5	4,288	2,570	2,520	3,569	2,886
Other	6	6,724	6,807	7,135	6,922	6,465
Total revenue		**374,267**	**391,348**	**419,612**	**449,840**	**480,394**
Expenses						
Gross operating expenses						
Wages and salaries(a)	7	19,532	19,638	19,383	19,591	19,928
Superannuation	7	6,235	4,291	4,268	4,226	4,259
Depreciation and amortisation	8	6,474	6,644	6,834	7,126	7,229
Supply of goods and services	9	74,552	79,875	81,769	84,642	88,701
Other operating expenses(a)	7	6,039	6,111	6,187	6,260	6,451
Total gross operating expenses		*112,833*	*116,559*	*118,441*	*121,845*	*126,569*
Superannuation interest expense	7	8,320	9,275	9,630	9,979	10,333
Interest expenses	10	14,396	15,551	17,072	18,327	19,011
Current transfers						
Current grants	11	117,437	124,121	128,711	137,663	149,198
Subsidy expenses		15,534	12,184	12,497	13,280	13,779
Personal benefits	12	124,944	126,336	132,086	139,061	146,124
Total current transfers		*257,915*	*262,641*	*273,294*	*290,004*	*309,101*
Capital transfers	11					
Mutually agreed write-downs		3,094	2,662	2,796	3,013	3,216
Other capital grants		18,736	8,156	9,884	10,638	7,218
Total capital transfers		*21,830*	*10,818*	*12,681*	*13,651*	*10,434*
Total expenses		**415,294**	**414,845**	**431,118**	**453,806**	**475,447**
Net operating balance		**-41,027**	**-23,497**	**-11,506**	**-3,966**	**4,946**
Other economic flows - included in operating result						
Net write-downs of assets (including bad and doubtful debts)		-5,278	-7,037	-7,714	-8,355	-9,198
Assets recognised for the first time		330	346	363	381	393
Liabilities recognised for the first time		0	0	0	0	0
Actuarial revaluations		0	0	0	0	0
Net foreign exchange gains		-447	63	105	153	18
Net swap interest received		-663	0	0	0	0
Market valuation of debt		2,410	372	157	30	-50
Other gains/(losses)		9,302	6,259	7,796	3,750	4,971
Total other economic flows - included in operating result		**5,655**	**1**	**708**	**-4,040**	**-3,866**
Operating result(b)		**-35,372**	**-23,495**	**-10,798**	**-8,006**	**1,081**
Non-owner movements in equity						
Revaluation of equity investments		7,185	-2,237	0	0	0
Actuarial revaluations		-6,720	17	211	368	395
Other economic revaluations		704	124	144	1,097	165
Total other economic flows - included in equity		**1,168**	**-2,096**	**355**	**1,464**	**561**
Comprehensive result - Total change in net worth		**-34,204**	**-25,591**	**-10,443**	**-6,542**	**1,641**
Net operating balance		**-41,027**	**-23,497**	**-11,506**	**-3,966**	**4,946**

Table 1: Australian Government general government sector operating statement (continued)

		Estimates			Projections	
		2013-14	2014-15	2015-16	2016-17	2017-18
	Note	$m	$m	$m	$m	$m
Net acquisition of non-financial assets						
Purchases of non-financial assets		10,240	10,679	10,215	9,626	11,094
less Sales of non-financial assets		273	2,370	2,767	215	214
less Depreciation		6,474	6,644	6,834	7,126	7,229
plus Change in inventories		430	492	328	457	301
plus Other movements in non-financial assets		105	201	-234	-112	10
Total net acquisition of non-financial assets		**4,027**	**2,359**	**708**	**2,630**	**3,962**
Fiscal balance (Net lending/borrowing)(c)		**-45,055**	**-25,855**	**-12,214**	**-6,596**	**984**

(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) Operating result under AAS.
(c) The term fiscal balance is not used by the ABS.

Table 2: Australian Government general government sector balance sheet

		Estimates			Projections	
		2013-14	2014-15	2015-16	2016-17	2017-18
	Note	$m	$m	$m	$m	$m
Assets						
Financial assets						
Cash and deposits	19(a)	3,004	2,480	2,764	2,760	3,080
Advances paid	13	39,737	45,145	52,454	61,294	70,021
Investments, loans and placements	14	117,371	128,753	134,010	149,258	151,884
Other receivables	13	46,051	45,489	48,747	52,772	55,176
Equity investments						
Investments in other public sector entities		35,781	35,506	42,376	49,577	51,983
Equity accounted investments		300	303	306	307	308
Investments - shares		37,549	39,715	41,910	45,173	48,306
Total financial assets		*279,792*	*297,392*	*322,567*	*361,142*	*380,758*
Non-financial assets	15					
Land		8,929	8,875	8,825	8,838	8,802
Buildings		24,335	25,425	25,468	25,506	25,951
Plant, equipment and infrastructure		54,875	57,347	60,330	62,405	64,921
Inventories		7,942	7,987	7,865	7,841	7,635
Intangibles		5,810	5,988	6,083	6,184	6,702
Investment property		196	211	226	231	236
Biological assets		35	35	35	35	35
Heritage and cultural assets		10,573	10,588	10,600	10,613	10,625
Assets held for sale		136	174	136	136	136
Other non-financial assets		397	598	364	252	261
Total non-financial assets		*113,228*	*117,229*	*119,932*	*122,041*	*125,305*
Total assets		**393,020**	**414,620**	**442,499**	**483,184**	**506,063**
Liabilities						
Interest bearing liabilities						
Deposits held		182	182	182	182	182
Government securities		346,648	387,772	421,424	460,519	475,214
Loans	16	9,608	13,436	12,707	12,717	12,640
Other borrowing		1,524	1,376	1,276	1,175	1,149
Total interest bearing liabilities		*357,963*	*402,766*	*435,590*	*474,593*	*489,185*
Provisions and payables						
Superannuation liability	17	157,067	163,228	169,320	175,263	181,126
Other employee liabilities	17	15,102	15,291	15,401	15,680	16,038
Suppliers payable	18	4,632	4,705	4,768	4,855	5,103
Personal benefits provisions and payable	18	12,384	11,659	11,196	11,499	11,856
Subsidies provisions and payable	18	4,242	3,937	4,146	4,321	4,411
Grants provisions and payable	18	14,170	11,154	10,187	11,209	10,775
Other provisions and payables	18	13,879	13,891	14,344	14,758	14,923
Total provisions and payables		*221,477*	*223,865*	*229,363*	*237,586*	*244,231*
Total liabilities		**579,439**	**626,631**	**664,953**	**712,179**	**733,417**
Net worth(a)		**-186,419**	**-212,010**	**-222,454**	**-228,995**	**-227,354**
Net financial worth(b)		*-299,647*	*-329,239*	*-342,385*	*-351,036*	*-352,659*
Net financial liabilities(c)		*335,428*	*364,745*	*384,761*	*400,614*	*404,642*
Net debt(d)		*197,851*	*226,388*	*246,362*	*261,280*	*264,200*

(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	
	2013-14	2014-15	2015-16	2016-17	2017-18
	$m	$m	$m	$m	$m
Cash receipts from operating activities					
Taxes received	341,643	360,372	385,286	411,691	437,562
Receipts from sales of goods and services	8,764	8,910	9,121	11,279	15,893
Interest receipts	3,210	3,657	3,893	3,977	4,088
Dividends and income tax equivalents	3,040	4,257	2,461	2,675	3,751
Other receipts	6,376	6,339	6,963	7,012	6,476
Total operating receipts	**363,032**	**383,534**	**407,725**	**436,634**	**467,771**
Cash payments for operating activities					
Payments for employees	-26,587	-27,022	-27,151	-27,498	-28,251
Payments for goods and services	-74,438	-79,807	-81,515	-84,612	-88,415
Grants and subsidies paid	-152,953	-147,617	-151,670	-161,318	-170,327
Interest paid	-13,935	-14,174	-15,442	-16,188	-17,011
Personal benefit payments	-126,398	-127,221	-132,752	-139,026	-146,064
Other payments	-6,056	-5,890	-5,881	-5,898	-6,025
Total operating payments	**-400,366**	**-401,730**	**-414,410**	**-434,539**	**-456,094**
Net cash flows from operating activities	**-37,334**	**-18,196**	**-6,685**	**2,095**	**11,677**
Cash flows from investments in non-financial assets					
Sales of non-financial assets	464	2,244	2,702	215	214
Purchases of non-financial assets	-9,827	-10,753	-9,839	-9,374	-10,966
Net cash flows from investments in non-financial assets	**-9,363**	**-8,509**	**-7,137**	**-9,159**	**-10,752**
Net cash flows from investments in financial assets for policy purposes	**-6,575**	**-6,819**	**-12,787**	**-15,592**	**-12,358**
Cash flows from investments in financial assets for liquidity purposes					
Increase in investments	-8,592	-7,017	-5,217	-14,654	-1,263
Net cash flows from investments in financial assets for liquidity purposes	**-8,592**	**-7,017**	**-5,217**	**-14,654**	**-1,263**
Cash receipts from financing activities					
Borrowing	64,689	42,308	34,624	40,250	15,965
Other financing	17	0	0	0	0
Total cash receipts from financing activities	**64,706**	**42,308**	**34,624**	**40,250**	**15,965**
Cash payments for financing activities					
Borrowing	0	0	0	0	0
Other financing	-1,914	-2,289	-2,514	-2,944	-2,950
Total cash payments for financing activities	**-1,914**	**-2,289**	**-2,514**	**-2,944**	**-2,950**
Net cash flows from financing activities	**62,792**	**40,018**	**32,110**	**37,306**	**13,015**
Net increase/(decrease) in cash held	**928**	**-523**	**284**	**-4**	**319**

Table 3: Australian Government general government sector cash flow statement[(a)] (continued)

	Estimates			Projections	
	2013-14	2014-15	2015-16	2016-17	2017-18
	$m	$m	$m	$m	$m
Net cash flows from operating activities and investments in non-financial assets (Surplus(+)/deficit(-))	**-46,698**	**-26,705**	**-13,822**	**-7,063**	**925**
Finance leases and similar arrangements(b)	-469	0	0	0	0
GFS cash surplus(+)/deficit(-)	**-47,166**	**-26,705**	**-13,822**	**-7,063**	**925**
less Net Future Fund earnings	2,689	3,068	3,262	3,499	3,750
Equals underlying cash balance(c)	**-49,855**	**-29,773**	**-17,084**	**-10,562**	**-2,825**
plus Net cash flows from investments in financial assets for policy purposes	-6,575	-6,819	-12,787	-15,592	-12,358
plus Net Future Fund earnings	2,689	3,068	3,262	3,499	3,750
Equals headline cash balance	**-53,741**	**-33,524**	**-26,609**	**-22,656**	**-11,432**

(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	
	2013-14	2014-15
	$m	$m
Revenue		
Current grants and subsidies	34	27
Sales of goods and services	9,426	9,805
Interest income	55	29
Other	5	10
Total revenue	**9,520**	**9,871**
Expenses		
Gross operating expenses		
Wages and salaries(a)	3,827	3,765
Superannuation	472	512
Depreciation and amortisation	966	1,456
Supply of goods and services	4,637	5,094
Other operating expenses(a)	432	401
Total gross operating expenses	*10,334*	*11,227*
Interest expenses	288	322
Other property expenses	215	101
Current transfers		
Tax expenses	147	109
Total current transfers	*147*	*109*
Total expenses	**10,984**	**11,759**
Net operating balance	**-1,464**	**-1,887**
Other economic flows	**4**	**-5**
Comprehensive result - Total change in net worth excluding contribution from owners	**-1,460**	**-1,892**
Net acquisition of non-financial assets		
Purchases of non-financial assets	2,892	3,797
less Sales of non-financial assets	185	16
less Depreciation	966	1,456
plus Change in inventories	10	18
plus Other movements in non-financial assets	628	1,232
Total net acquisition of non-financial assets	**2,379**	**3,575**
Fiscal balance (Net lending/borrowing)(b)	**-3,843**	**-5,463**

(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	
	2013-14	2014-15
	$m	$m
Assets		
Financial assets		
Cash and deposits	1,897	1,713
Investments, loans and placements	239	295
Other receivables	1,434	1,442
Equity investments	30	30
Total financial assets	*3,600*	*3,480*
Non-financial assets		
Land and fixed assets	16,559	19,439
Other non-financial assets(a)	2,208	3,437
Total non-financial assets	*18,767*	*22,876*
Total assets	**22,367**	**26,356**
Liabilities		
Interest bearing liabilities		
Loans	2,947	2,858
Other borrowing	3,468	3,945
Total interest bearing liabilities	*6,415*	*6,803*
Provisions and payables		
Superannuation liability	57	58
Other employee liabilities	1,318	1,430
Other provisions and payables(a)	2,693	2,764
Total provisions and payables	*4,068*	*4,251*
Total liabilities	**10,483**	**11,054**
Shares and other contributed capital	**11,884**	**15,301**
Net worth(b)	**11,884**	**15,301**
Net financial worth(c)	*-6,883*	*-7,574*
Net debt(d)	*4,279*	*4,795*

(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	
	2013-14	2014-15
	$m	$m
Cash receipts from operating activities		
Receipts from sales of goods and services	10,732	10,841
GST input credit receipts	266	277
Other receipts	61	31
Total operating receipts	**11,059**	**11,149**
Cash payments for operating activities		
Payments to employees	-4,533	-4,495
Payment for goods and services	-5,746	-5,888
Interest paid	-68	-59
GST payments to taxation authority	-618	-639
Other payments	-130	-111
Total operating payments	**-11,095**	**-11,192**
Net cash flows from operating activities	**-36**	**-43**
Cash flows from investments in non-financial assets		
Sales of non-financial assets	245	16
Purchases of non-financial assets	-3,524	-5,033
Net cash flows from investments in non-financial assets	**-3,279**	**-5,017**
Net cash flows from investments in financial assets for policy purposes	**0**	**0**
Cash flows from investments in financial assets for liquidity purposes		
Increase in investments	892	-2
Net cash flows from investments in financial assets for liquidity purposes	**892**	**-2**
Net cash flows from financing activities		
Borrowing (net)	-106	-277
Other financing (net)	3,746	5,256
Distributions paid (net)	-212	-101
Net cash flows from financing activities	**3,429**	**4,878**
Net increase/(decrease) in cash held	**1,006**	**-184**
Cash at the beginning of the year	**891**	**1,897**
Cash at the end of the year	**1,897**	**1,713**
Net cash from operating activities and investments in non-financial assets	**-3,315**	**-5,060**
Distributions paid	-212	-101
Equals surplus(+)/deficit(-)	**-3,527**	**-5,162**
Finance leases and similar arrangements(b)	0	0
GFS cash surplus(+)/deficit(-)	**-3,527**	**-5,162**

(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	
	2013-14	2014-15
	$m	$m
Revenue		
Taxation revenue	350,809	368,706
Sales of goods and services	16,946	17,671
Interest income	3,468	4,240
Dividend income	4,073	2,469
Other	6,730	6,817
Total revenue	**382,026**	**399,903**
Expenses		
Gross operating expenses		
Wages and salaries(a)	23,359	23,403
Superannuation	6,707	4,803
Depreciation and amortisation	7,440	8,100
Supply of goods and services	77,856	83,907
Other operating expenses(a)	6,471	6,512
Total gross operating expenses	*121,833*	*126,725*
Superannuation interest expense	8,320	9,275
Interest expenses	14,653	15,854
Current transfers		
Current grants	117,437	124,121
Subsidy expenses	15,499	12,158
Personal benefits	124,944	126,336
Total current transfers	*257,880*	*262,614*
Capital transfers	21,830	10,818
Total expenses	**424,517**	**425,287**
Net operating balance	**-42,491**	**-25,384**
Other economic flows	**8,436**	**-217**
Comprehensive result - Total change in net worth	**-34,056**	**-25,601**
Net acquisition of non-financial assets		
Purchases of non-financial assets	13,132	14,476
less Sales of non-financial assets	458	2,386
less Depreciation	7,440	8,100
plus Change in inventories	439	510
plus Other movements in non-financial assets	733	1,433
Total net acquisition of non-financial assets	**6,406**	**5,934**
Fiscal balance (Net lending/borrowing)(b)	**-48,898**	**-31,318**

(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	
	2013-14	2014-15
	$m	$m
Assets		
Financial assets		
Cash and deposits	4,901	4,194
Advances paid	39,737	45,145
Investments, loans and placements	117,307	128,745
Other receivables	47,354	46,811
Equity investments	61,437	59,905
Total financial assets	*270,736*	*284,800*
Non-financial assets		
Land and fixed assets	123,212	129,662
Other non-financial assets	8,783	10,442
Total non-financial assets	*131,995*	*140,104*
Total assets	**402,731**	**424,904**
Liabilities		
Interest bearing liabilities		
Deposits held	182	182
Government securities	346,648	387,772
Loans	12,252	15,991
Other borrowing	4,992	5,321
Total interest bearing liabilities	*364,074*	*409,266*
Provisions and payables		
Superannuation liability	157,124	163,286
Other employee liabilities	16,420	16,720
Other provisions and payables	51,869	47,990
Total provisions and payables	*225,414*	*227,997*
Total liabilities	**589,489**	**637,262**
Shares and other contributed capital	**11,884**	**15,301**
Net worth(a)	**-186,757**	**-212,358**
Net financial worth(b)	*-318,752*	*-352,462*
Net debt(c)	*202,130*	*231,182*

(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	
	2013-14	2014-15
	$m	$m
Cash receipts from operating activities		
Taxes received	341,512	360,260
Receipts from sales of goods and services	17,750	18,689
Interest receipts	3,239	3,668
Dividends and income tax equivalents	2,828	4,156
Other receipts	6,377	6,341
Total operating receipts	**371,706**	**393,114**
Cash payments for operating activities		
Payments to employees	-31,120	-31,517
Payments for goods and services	-78,790	-84,996
Grants and subsidies paid	-152,953	-147,617
Interest paid	-13,972	-14,214
Personal benefit payments	-126,398	-127,221
Other payments	-6,056	-5,890
Total operating payments	**-409,288**	**-411,454**
Net cash flows from operating activities	**-37,583**	**-18,341**
Cash flows from investments in non-financial assets		
Sales of non-financial assets	709	2,260
Purchases of non-financial assets	-13,351	-15,787
Net cash flows from investments in non-financial assets	**-12,642**	**-13,526**
Net cash flows from investments in financial assets for policy purposes	**-3,154**	**-1,509**
Cash flows from investments in financial assets for liquidity purposes		
Increase in investments	-7,699	-7,019
Net cash flows from investments in financial assets for liquidity purposes	**-7,699**	**-7,019**
Net cash flows from financing activities		
Borrowing (net)	64,584	42,031
Other financing (net)	-1,571	-2,343
Net cash flows from financing activities	**63,013**	**39,688**
Net increase/(decrease) in cash held	**1,934**	**-707**
Cash at the beginning of the year	**2,966**	**4,901**
Cash at the end of the year	**4,901**	**4,194**
Net cash from operating activities and investments in non-financial assets	**-50,225**	**-31,867**
Distributions paid	0	0
Equals surplus(+)/deficit(-)	**-50,225**	**-31,867**
Finance leases and similar arrangements(b)	-469	0
GFS cash surplus(+)/deficit(-)	**-50,693**	**-31,867**

(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 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), issued by the Australian Accounting Standards Board (AASB), which includes International Financial Reporting Standards (IFRS) as adopted in Australia and the public sector specific standard AASB 1049 *Whole of Government and General Government Sector Financial Reporting*.

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. Detailed accounting policies, as well as a set of notes and other disclosures, as required by AAS, are disclosed in the annual Consolidated Financial Statements.

Fiscal 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.

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.

AASB 1049 and the UFP 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).

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 to be 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: *Expenses and Net Capital Investment*. In accordance with the UPF, purchases of non-financial assets by function are also disclosed in Statement 6.

AASB 1049 requires major variances between original budget estimates and outcomes to be explained in the financial statements. 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 2013-14* (MYEFO) are disclosed in Statement 3: *Fiscal Strategy and Outlook*, with decisions taken since the MYEFO disclosed in Budget Paper No. 2 *Budget Measures 2014*. All policy decisions taken between the 2013-14 Budget and the 2013-14 MYEFO are disclosed in Appendix A of the MYEFO.

Details of the Australian Government's GGS contingent liabilities are disclosed in Statement 8: *Statement of Risks*.

Note 2: Departures from external reporting standards

The Charter requires that departures from applicable external reporting standards be identified. The major differences between AAS and the ABS GFS treatments of transactions are outlined in Table 10.

AASB 1049 requires AAS measurement of items to be disclosed on the face of the financial statements with reconciliation to ABS GFS measurement of key fiscal aggregates, where different, in notes to the financial statements. Differences from the AAS measurement of items outline above and reconciliation have not been included as they would effectively create different measures of the same aggregate.

Further information on the differences between the two systems is provided in the ABS publication *Australian System of Government Finance Statistics: Concepts, Sources and Methods, 2005* (cat. no. 5514.0).

Table 10: 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 using the perpetual inventory method from September quarter 2009. 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, decommis-sioning and make-good	Included in the fiscal balance capital adjustment.	Excluded from the calculation of net lending capital adjustment.	AAS
Renewable Energy Certificates (RECs)	The issuance and registration of RECs is considered to be an administrative function and does not result in the recognition of an asset or liability and therefore no revenue or expense is recognised.	The issuance and registration of RECs is considered to be government financial transactions resulting in the recognition of assets, liabilities, revenue and expenses.	AAS
Carbon tax	The issuance and surrender of free carbon units and Australian Carbon Credit Units (ACCUs) used in the settlement of emissions liabilities are not recognised.	The issuance and surrender of free carbon units and ACCUs used in the settlement of emissions' liabilities are treated as expenses and revenues respectively.	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

Table 10: Major differences between AAS and ABS GFS (continued)

Issue	AAS treatment	ABS GFS treatment	Treatment adopted
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
Payment to the Reserve Bank of Australia	Treated as a grant.	Treated as an equity injection.	AAS
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
Net financial worth of PNFC and PFC	Calculated as financial assets less total liabilities.	Calculated as financial assets less total liabilities less shares and contributed capital.	AAS
Classification difference			
Prepayments	Treated as a non-financial asset.	Treated as a financial asset.	ABS GFS
Spectrum sales	Recognise non-financial asset sales for fiscal balance when licences are transferred, which may be after the auction of licences, as this is regarded as the point control is transferred. Recognise cash at the time of receipt.	Recognise non-financial asset sales for fiscal balance at time of auction as this is regarded as the point control is transferred. Recognise cash at the time of receipt.	AAS

Note 3: Taxation revenue by type

	Estimates			Projections	
	2013-14	2014-15	2015-16	2016-17	2017-18
	$m	$m	$m	$m	$m
Individuals and other withholding taxes					
Gross income tax withholding	158,300	171,170	183,390	195,370	208,820
Gross other individuals	37,180	40,120	43,980	48,290	52,690
less Refunds	27,100	27,700	28,600	29,800	31,800
Total individuals and other withholding taxation	168,380	183,590	198,770	213,860	229,710
Fringe benefits tax	4,140	4,440	5,010	5,290	5,180
Company tax	69,400	73,230	77,170	81,850	86,610
Superannuation fund taxes	6,580	7,870	10,610	11,550	12,110
Minerals resource rent tax(a)	170	0	0	0	0
Petroleum resource rent tax	1,470	2,060	1,910	1,900	1,900
Income taxation revenue	**250,140**	**271,190**	**293,470**	**314,450**	**335,510**
Goods and services tax	54,321	56,970	60,370	63,740	67,300
Wine equalisation tax	810	790	820	860	890
Luxury car tax	430	360	310	340	370
Excise and customs duty					
Petrol	5,890	5,970	6,170	6,450	6,850
Diesel	8,820	9,280	9,640	10,020	10,490
Other fuel products	3,600	3,730	3,530	3,690	3,930
Tobacco	7,770	8,730	9,660	10,680	10,980
Beer	2,330	2,410	2,480	2,590	2,730
Spirits	1,890	1,930	1,980	2,080	2,190
Other alcoholic beverages(b)	960	980	1,010	1,060	1,120
Other customs duty					
Textiles, clothing and footwear	770	600	430	450	480
Passenger motor vehicles	920	820	610	630	660
Other imports	1,660	1,650	1,680	1,790	1,880
less: Refunds and drawbacks	360	360	360	360	360
Total excise and customs duty	34,250	35,740	36,830	39,080	40,950
Carbon pricing mechanism(c)	7,340	0	0	0	0
Agricultural levies	476	469	474	486	496
Other taxes	3,190	3,295	3,781	3,919	3,994
Mirror taxes	508	524	560	593	616
less Transfers to States in relation to mirror tax revenue	508	524	560	593	616
Mirror tax revenue	0	0	0	0	0
Indirect taxation revenue	**100,817**	**97,624**	**102,585**	**108,424**	**114,000**
Taxation revenue	**350,956**	**368,814**	**396,055**	**422,875**	**449,509**
Memorandum:					
Total excise	*25,230*	*26,470*	*27,400*	*28,850*	*30,270*
Total customs duty	*9,020*	*9,270*	*9,430*	*10,230*	*10,680*
Capital gains tax(d)	*7,500*	*9,000*	*12,000*	*14,400*	*16,700*
Medicare and DisabilityCare Australia levy(e)	*10,480*	*14,160*	*15,160*	*15,890*	*16,650*
Temporary Budget Repair Levy(f)	*-*	*600*	*780*	*850*	*190*

(a) Net revenue from MRRT is expected to be $100 million in 2013-14 and zero in 2014-15 which represent the net revenue impact across different revenue heads. These include the offsetting reductions in company tax (through deductibility) and interactions with other taxes. The Government has announced the MRRT will not apply beyond 30 June 2014.

(b) Other alcoholic beverages are those not exceeding 10 per cent by volume of alcohol (excluding beer, brandy and wine).

(c) Tax revenue includes carbon accrual revenue measured at legislated price, with details of the accounting treatment of carbon revenue set out in Note 2 to the General Government Sector Financial Statements.

(d) Capital gains tax is part of gross other individuals, company tax and superannuation fund taxes.

(e) At the 2013-14 MYEFO, the Medicare and DisabilityCare Australia levy estimates were based on when the liability to the levy is assessed. From the 2014-15 Budget estimates are based on when collections relating to the levy are received.

(f) This represents the net impact of the Temporary Budget Repair Levy on individuals and other withholding taxes. An additional $680 million is expected to be raised over the forward estimates through the temporary increase in the FBT rate that was announced as part of the temporary levy.

Note 3(a): Taxation revenue by source

	Estimates			Projections	
	2013-14	2014-15	2015-16	2016-17	2017-18
	$m	$m	$m	$m	$m
Taxes on income, profits and capital gains					
Income and capital gains levied on individuals	172,530	188,050	203,800	219,180	234,900
Income and capital gains levied on enterprises	77,610	83,140	89,670	95,270	100,610
Total taxes on income, profits and capital gains	**250,140**	**271,190**	**293,470**	**314,450**	**335,510**
Taxes on employers' payroll and labour force	700	738	760	781	785
Taxes on the provision of goods and services					
Sales/goods and services tax	55,561	58,120	61,500	64,940	68,560
Excises and levies	25,706	26,939	27,874	29,336	30,766
Taxes on international trade	9,020	9,270	9,430	10,230	10,680
Total taxes on the provision of goods and services	**90,287**	**94,329**	**98,804**	**104,506**	**110,006**
Other sale of goods and services	9,830	2,557	3,021	3,138	3,209
Total taxation revenue	**350,956**	**368,814**	**396,055**	**422,875**	**449,509**
Memorandum:					
Medicare and DisabilityCare Australia levy(a)	*10,480*	*14,160*	*15,160*	*15,890*	*16,650*

(a) At the 2013-14 MYEFO, the Medicare and DisabilityCare Australia levy estimates were based on when the liability to the levy is assessed. From the 2014-15 Budget estimates are based on when collections relating to the levy are received.

Note 4: Sales of goods and services revenue

	Estimates			Projections	
	2013-14	2014-15	2015-16	2016-17	2017-18
	$m	$m	$m	$m	$m
Sales of goods	1,520	1,522	1,618	1,803	1,885
Rendering of services	3,994	3,931	3,976	5,883	10,351
Operating lease rental	63	62	58	59	59
Fees from regulatory services	3,276	3,413	3,517	3,603	3,674
Total sales of goods and services revenue	**8,853**	**8,928**	**9,170**	**11,347**	**15,969**

Note 5: Interest and dividend revenue

	Estimates			Projections	
	2013-14	2014-15	2015-16	2016-17	2017-18
	$m	$m	$m	$m	$m
Interest from other governments					
State and Territory debt	9	12	14	13	13
Housing agreements	138	134	129	124	119
Total interest from other governments	**148**	**146**	**143**	**138**	**132**
Interest from other sources					
Advances	47	50	56	62	102
Deposits	91	90	90	91	91
Bank deposits	158	136	138	144	152
Indexation of HELP receivable and other student loans	536	671	1,366	1,640	2,012
Other	2,465	3,137	2,939	3,054	3,075
Total interest from other sources	**3,297**	**4,083**	**4,589**	**4,990**	**5,432**
Total interest	**3,445**	**4,229**	**4,731**	**5,128**	**5,565**
Dividends					
Dividends from other public sector entities	2,154	400	212	1,104	245
Other dividends	2,134	2,170	2,308	2,465	2,641
Total dividends	**4,288**	**2,570**	**2,520**	**3,569**	**2,886**
Total interest and dividend revenue	**7,733**	**6,799**	**7,252**	**8,697**	**8,451**

Note 6: Other sources of non-taxation revenue

	Estimates			Projections	
	2013-14	2014-15	2015-16	2016-17	2017-18
	$m	$m	$m	$m	$m
Industry contributions	42	55	54	54	54
Royalties	1,852	1,637	1,681	1,689	1,591
Seigniorage	135	114	111	108	104
Other	4,695	5,001	5,289	5,071	4,717
Total other sources of non-taxation revenue	**6,724**	**6,807**	**7,135**	**6,922**	**6,465**

Note 7: Employee and superannuation expense

	Estimates			Projections	
	2013-14	2014-15	2015-16	2016-17	2017-18
	$m	$m	$m	$m	$m
Wages and salaries expenses	**19,532**	**19,638**	**19,383**	**19,591**	**19,928**
Other operating expenses					
Leave and other entitlements	2,449	2,430	2,417	2,405	2,453
Separations and redundancies	273	105	57	49	48
Workers compensation premiums and claims	741	873	909	969	1,013
Other	2,577	2,702	2,805	2,838	2,937
Total other operating expenses	**6,039**	**6,111**	**6,187**	**6,260**	**6,451**
Superannuation expenses					
Superannuation	6,235	4,291	4,268	4,226	4,259
Superannuation interest cost	8,320	9,275	9,630	9,979	10,333
Total superannuation expenses	**14,555**	**13,567**	**13,898**	**14,206**	**14,592**
Total employee and superannuation expense	**40,127**	**39,315**	**39,469**	**40,057**	**40,971**

Note 8: Depreciation and amortisation expense

	Estimates			Projections	
	2013-14	2014-15	2015-16	2016-17	2017-18
	$m	$m	$m	$m	$m
Depreciation					
Specialist military equipment	2,815	2,988	3,161	3,472	3,609
Buildings	1,329	1,321	1,319	1,329	1,344
Other infrastructure, plant and equipment	1,401	1,436	1,456	1,447	1,459
Heritage and cultural assets	37	38	38	38	37
Total depreciation	**5,583**	**5,783**	**5,974**	**6,285**	**6,449**
Total amortisation	**891**	**861**	**860**	**841**	**780**
Total depreciation and amortisation expense	**6,474**	**6,644**	**6,834**	**7,126**	**7,229**

Note 9: Supply of goods and services expense

	Estimates			Projections	
	2013-14	2014-15	2015-16	2016-17	2017-18
	$m	$m	$m	$m	$m
Supply of goods and services	23,904	25,959	25,040	24,531	25,679
Operating lease rental expenses	2,650	2,693	2,701	2,738	2,744
Personal benefits – indirect	40,906	43,836	46,392	49,351	52,064
Health care payments	5,336	5,448	5,474	5,608	5,785
Other	1,757	1,939	2,161	2,416	2,429
Total supply of goods and services expense	**74,552**	**79,875**	**81,769**	**84,642**	**88,701**

Note 10: Interest expense

	Estimates			Projections	
	2013-14	2014-15	2015-16	2016-17	2017-18
	$m	$m	$m	$m	$m
Interest on debt					
Government securities(a)	13,429	14,707	16,133	17,156	17,875
Loans	10	10	9	12	11
Other	283	532	529	525	526
Total interest on debt	**13,723**	**15,248**	**16,672**	**17,692**	**18,412**
Other financing costs	**674**	**303**	**400**	**635**	**598**
Total interest expense	**14,396**	**15,551**	**17,072**	**18,327**	**19,011**

(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.

Note 11: Current and capital grants expense

	Estimates			Projections	
	2013-14	2014-15	2015-16	2016-17	2017-18
	$m	$m	$m	$m	$m
Current grants expense					
State and Territory governments	88,473	93,602	98,776	105,445	110,428
Local governments	17	6	2	0	0
Private sector	2,358	1,782	1,408	1,139	1,082
Overseas	4,218	4,590	4,495	5,070	5,032
Non-profit organisations	1,600	1,675	2,140	1,843	2,154
Multi-jurisdictional sector	9,755	10,049	10,077	9,877	10,089
Other	11,015	12,417	11,813	14,291	20,412
Total current grants expense	**117,437**	**124,121**	**128,711**	**137,663**	**149,198**
Capital grants expense					
Mutually agreed write-downs	3,094	2,662	2,796	3,013	3,216
Other capital grants					
State and Territory governments	8,616	7,029	8,567	9,553	5,876
Local governments	728	510	725	392	392
Private sector	34	1	1	1	1
Multi-jurisdictional sector	99	102	102	100	102
Other	9,260	515	490	593	848
Total capital grants expense	**21,830**	**10,818**	**12,681**	**13,651**	**10,434**
Total grants expense	**139,267**	**134,939**	**141,391**	**151,314**	**159,632**

Note 12: Personal benefits expense

	Estimates			Projections	
	2013-14	2014-15	2015-16	2016-17	2017-18
	$m	$m	$m	$m	$m
Social welfare - assistance to the aged	40,279	42,601	45,103	47,968	50,008
Assistance to veterans and dependants	6,226	6,115	5,964	5,783	5,537
Assistance to people with disabilities	23,237	24,522	25,620	26,940	28,270
Assistance to families with children	32,805	31,337	30,019	30,373	29,933
Assistance to the unemployed	10,226	10,233	10,571	10,687	10,610
Student assistance	3,602	3,251	3,076	3,230	3,394
Other welfare programmes	335	399	411	447	483
Financial and fiscal affairs	468	473	508	517	507
Vocational and industry training	295	151	84	90	95
Other	7,470	7,253	10,730	13,027	17,287
Total personal benefits expense	**124,944**	**126,336**	**132,086**	**139,061**	**146,124**

Note 13: Advances paid and other receivables

	Estimates			Projections	
	2013-14	2014-15	2015-16	2016-17	2017-18
	$m	$m	$m	$m	$m
Advances paid					
Loans to State and Territory governments	2,510	2,487	2,421	2,326	2,226
Higher Education Loan Program	25,183	29,908	36,796	43,599	51,436
Student Financial Supplement Scheme	624	573	525	480	430
Other	11,444	12,202	12,737	14,914	15,953
less Provision for doubtful debts	24	24	24	24	24
Total advances paid	**39,737**	**45,145**	**52,454**	**61,294**	**70,021**
Other receivables					
Goods and services receivable	829	771	736	736	745
Recoveries of benefit payments	3,398	3,544	3,677	3,817	3,960
Taxes receivable	22,700	23,255	25,793	28,300	30,899
Prepayments	2,511	2,409	2,365	2,346	2,284
Other	18,013	16,978	17,698	19,160	18,942
less Provision for doubtful debts	1,400	1,468	1,522	1,588	1,653
Total other receivables	**46,051**	**45,489**	**48,747**	**52,772**	**55,176**

Note 14: Investments, loans and placements

	Estimates			Projections	
	2013-14	2014-15	2015-16	2016-17	2017-18
	$m	$m	$m	$m	$m
Investments - deposits	36,823	33,286	27,983	33,964	28,037
IMF quota	5,339	11,054	11,224	11,451	11,451
Other	75,209	84,414	94,802	103,843	112,396
Total investments, loans and placements	**117,371**	**128,753**	**134,010**	**149,258**	**151,884**

Note 15: Total non-financial assets

	Estimates			Projections	
	2013-14	2014-15	2015-16	2016-17	2017-18
	$m	$m	$m	$m	$m
Land and buildings					
Land	8,929	8,875	8,825	8,838	8,802
Buildings	24,335	25,425	25,468	25,506	25,951
Total land and buildings	**33,264**	**34,300**	**34,293**	**34,345**	**34,754**
Plant, equipment and infrastructure					
Specialist military equipment	41,384	43,795	46,940	49,553	52,411
Other	13,490	13,551	13,391	12,851	12,510
Total plant, equipment and infrastructure	**54,875**	**57,347**	**60,330**	**62,405**	**64,921**
Inventories					
Inventories held for sale	1,280	1,433	1,435	1,547	1,494
Inventories not held for sale	6,662	6,554	6,430	6,294	6,141
Total inventories	**7,942**	**7,987**	**7,865**	**7,841**	**7,635**
Intangibles					
Computer software	3,535	3,503	3,382	3,198	3,096
Other	2,275	2,485	2,701	2,986	3,607
Total intangibles	**5,810**	**5,988**	**6,083**	**6,184**	**6,702**
Total investment properties	**196**	**211**	**226**	**231**	**236**
Total biological assets	**35**	**35**	**35**	**35**	**35**
Total heritage and cultural assets	**10,573**	**10,588**	**10,600**	**10,613**	**10,625**
Total assets held for sale	**136**	**174**	**136**	**136**	**136**
Total other non-financial assets	**397**	**598**	**364**	**252**	**261**
Total non-financial assets	**113,228**	**117,229**	**119,932**	**122,041**	**125,305**

Note 16: Loans

	Estimates			Projections	
	2013-14	2014-15	2015-16	2016-17	2017-18
	$m	$m	$m	$m	$m
Promissory notes	3,709	7,671	7,107	7,108	7,109
Special drawing rights	5,086	5,086	5,166	5,272	5,272
Other	813	680	434	337	259
Total loans	**9,608**	**13,436**	**12,707**	**12,717**	**12,640**

Note 17: Employee and superannuation liabilities

	Estimates			Projections	
	2013-14	2014-15	2015-16	2016-17	2017-18
	$m	$m	$m	$m	$m
Total superannuation liability(a)	**157,067**	**163,228**	**169,320**	**175,263**	**181,126**
Other employee liabilities					
Leave and other entitlements	7,496	7,504	7,560	7,614	7,702
Accrued salaries and wages	686	690	518	506	517
Workers compensation claims	3,166	3,249	3,333	3,428	3,535
Separations and redundancies	110	59	59	59	59
Other	3,644	3,788	3,931	4,073	4,225
Total other employee liabilities	**15,102**	**15,291**	**15,401**	**15,680**	**16,038**
Total employee and superannuation liabilities	**172,169**	**178,519**	**184,722**	**190,943**	**197,164**

(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	
	2013-14	2014-15	2015-16	2016-17	2017-18
	$m	$m	$m	$m	$m
Suppliers payable					
Trade creditors	3,913	3,981	4,041	4,069	4,283
Operating lease rental payable	222	228	231	231	229
Other creditors	497	496	497	556	591
Total suppliers payable	**4,632**	**4,705**	**4,768**	**4,855**	**5,103**
Total personal benefits provisions and payable	**12,384**	**11,659**	**11,196**	**11,499**	**11,856**
Total subsidies provisions and payable	**4,242**	**3,937**	**4,146**	**4,321**	**4,411**
Grants provisions and payable					
State and Territory governments	149	115	117	116	110
Non-profit organisations	90	81	81	81	81
Private sector	365	364	364	364	364
Overseas	2,076	1,914	1,602	2,688	2,331
Local governments	7	7	7	7	7
Other	11,484	8,674	8,017	7,953	7,883
Total grants provisions and payable	**14,170**	**11,154**	**10,187**	**11,209**	**10,775**
Other provisions and payables					
Provisions for tax refunds	3,406	3,430	3,470	3,477	3,458
Other	10,473	10,461	10,874	11,281	11,465
Total other provisions and payables	**13,879**	**13,891**	**14,344**	**14,758**	**14,923**

Note 19: Reconciliation of cash

	Estimates			Projections	
	2013-14	2014-15	2015-16	2016-17	2017-18
	$m	$m	$m	$m	$m
Operating balance (revenues less expenses)	**-41,027**	**-23,497**	**-11,506**	**-3,966**	**4,946**
less **Revenues not providing cash**					
Other	876	1,330	1,674	1,859	2,122
Total revenues not providing cash	**876**	**1,330**	**1,674**	**1,859**	**2,122**
plus **Expenses not requiring cash**					
Increase/(decrease) in employee entitlements	7,776	6,367	6,413	6,599	6,616
Depreciation/amortisation expense	6,474	6,644	6,834	7,126	7,229
Mutually agreed write-downs	3,094	2,662	2,796	3,013	3,216
Other	719	170	261	-472	432
Total expenses not requiring cash	**18,063**	**15,844**	**16,305**	**16,266**	**17,494**
plus **Cash provided/(used) by working capital items**					
Decrease/(increase) in inventories	-227	-278	-102	-218	-48
Decrease/(increase) in receivables	-9,970	-5,745	-9,725	-11,063	-9,992
Decrease/(increase) in other financial assets	1,630	1,457	1,653	2,192	2,271
Decrease/(increase) in other non-financial assets	-64	29	-27	-51	-12
Increase/(decrease) in benefits, subsidies and grants payable	-2,962	-3,799	-968	1,626	272
Increase/(decrease) in suppliers' liabilities	345	52	39	102	232
Increase/(decrease) in other provisions and payables	-2,245	-929	-679	-934	-1,363
Net cash provided/(used) by working capital	**-13,493**	**-9,213**	**-9,810**	**-8,346**	**-8,641**
equals (Net cash from/(to) operating activities)	-37,334	-18,196	-6,685	2,095	11,677
plus (Net cash from/(to) investing activities)	-24,530	-22,345	-25,141	-39,405	-24,373
Net cash from operating activities and investment	**-61,864**	**-40,541**	**-31,826**	**-37,310**	**-12,695**
plus (Net cash from/(to) financing activities)	62,792	40,018	32,110	37,306	13,015
equals **Net increase/(decrease) in cash**	**928**	**-523**	**284**	**-4**	**319**
Cash at the beginning of the year	**2,075**	**3,004**	**2,480**	**2,764**	**2,760**
Net increase/(decrease) in cash	928	-523	284	-4	319
Cash at the end of the year	**3,004**	**2,480**	**2,764**	**2,760**	**3,080**

Note 19(a): Consolidated Revenue Fund

	Estimates			Projections	
	2013-14	2014-15	2015-16	2016-17	2017-18
	$m	$m	$m	$m	$m
Total general government sector cash	3,004	2,480	2,764	2,760	3,080
less CAC Agency cash balances	1,907	1,406	1,613	1,753	2,115
plus Special public monies	294	294	294	294	294
Balance of Consolidated Revenue Fund at 30 June	**1,391**	**1,368**	**1,445**	**1,301**	**1,259**

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 and entities subject to the *Financial Management and Accountability Act 1997* and the *Commonwealth Authorities and Companies Act 1997* (CAC Act), that implement public policy through the provision of primarily non-market services. From 1 July 2014, these agencies and entities will be subject to equivalent provisions under the *Public Governance, Performance and Accountability Act 2013.*

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 2014-15*.

APPENDIX A: FINANCIAL REPORTING STANDARDS AND BUDGET CONCEPTS

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.

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, overriding 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*.[1]

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1 Additional information on the Australian accrual GFS framework is available in the ABS publication *Australian System of Government Finance Statistics: Concepts, Sources and Methods, 2005* (cat. no. 5514.0).

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.[2]

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.

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) equals gross fixed capital formation, less depreciation, plus changes (investment) in inventories, plus other transactions in non-financial assets. This 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.

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

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2 Not all transactions impact on net worth. For example, transactions in financial assets and liabilities do not impact on net worth as they represent the swapping of assets and liabilities on the balance sheet.

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.[3]

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.

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.

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3 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 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 in 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[4] (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.

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.

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4 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.

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[5]

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. Prior to the 2012-13 MYEFO, 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 the meet the Government's future public sector superannuation liabilities. The Future Fund becomes available to meet the Government's superannuation liabilities from 2020.

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.

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: *Fiscal strategy and outlook*, and Statement 10, *Historical Australian Government Data*.

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5 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.

Headline cash balance

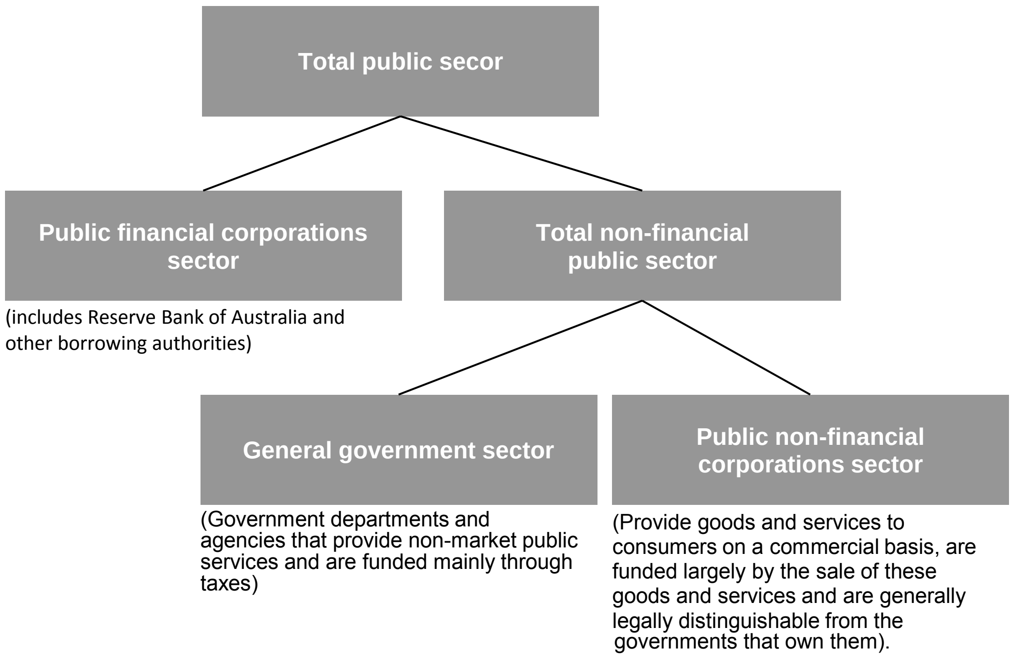
The headline cash balance is calculated by adding net cash flows from investments in financial assets for policy purposes and net Future Fund earnings to the underlying cash balance.

Cash flows from investments in financial assets for policy purposes include equity transactions and net advances.[6] 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 general government sector (GGS) and the public non-financial corporations (PNFC) and public financial corporations (PFC) sectors. AASB 1049 has also adopted this sectoral reporting.

Figure 1: Institutional structure of the public sector



All entities are classified as GGS entities except for the following list of portfolio entities that are classified as PFC or PNFC (Table A1).

6 Cash flows from investments in financial assets for policy purposes were called net advances under the cash budgeting framework.

A table which provides a full list of public sector principal entities is available on the Department of Finance website at www.finance.gov.au/sites/default/files/list-ggs-pnfc-pfc-fma-cac.pdf. That link is current until 30 June 2014. On commencement of the *Public Governance Performance and Accountability Act 2013* from 1 July 2014 a new table will be accessible at www.finance.gov.au/sites/default/files/list-ggs-pnfc-pfc-pgpa.pdf.

Table A1: Entities outside of the general government sector

Public financial corporations
Employment Portfolio
Coal Mining Industry (Long Service Leave Funding) Corporation
Finance Portfolio
Medibank Private Ltd
Foreign Affairs and Trade Portfolio
Export Finance and Insurance Corporation
Treasury Portfolio
Australia Reinsurance Pool Corporation, Reserve Bank of Australia
Public non-financial corporations
Attorney General's Portfolio
Australian Government Solicitor
Communications Portfolio
Australian Postal Corporation, NBN Co Ltd
Finance Portfolio
Albury-Wodonga Development Corporation, ASC Pty Ltd, Australian River Co. Ltd
Industry Portfolio
ANSTO Nuclear Medicine Pty Ltd
Infrastructure and Regional Development Portfolio
Airservices Australia, Australian Rail Track Corporation Ltd, Moorebank Intermodal Company Ltd
Prime Minister and Cabinet Portfolio
Voyages Indigenous Tourism Australia Pty Ltd
Social Services Portfolio
Australian Hearing Services

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 2014-15 LCA is a $37.4 billion deficit. This compares with its LCA nomination of a $44.5 billion deficit endorsed by the Loan Council on 28 March 2014. The LCA Budget estimate falls within the tolerance limit set at nomination.

Table B1: Commonwealth's Loan Council Allocation budget update for 2014-15

		2014-15 Nomination $m	2014-15 Budget estimate $m
	GGS cash surplus(-)/deficit(+)	30,953	26,705
	PNFC sector cash surplus(-)/deficit(+)	3,251	5,162
	NFPS cash surplus(-)/deficit(+)(a)	34,204	31,867
	Acquisitions under finance leases and similar arrangements	0	0
equals	ABS GFS cash surplus(-)/deficit(+)	34,204	31,867
minus	Net cash flows from investments in financial assets for policy purposes(b)	-11,484	-6,819
plus	Memorandum items(c)	-1,171	-1,239
	Loan Council Allocation	**44,517**	**37,447**
	2014-15 tolerance limit(d)	7,806	7,862

(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.

STATEMENT 10: HISTORICAL AUSTRALIAN GOVERNMENT DATA

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), the Australian Office of Financial Management (AOFM) 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 Accounting Standards (AAS) which includes International Financial Reporting Standards (IFRS) as adopted in Australia. Prior to 2005-06, underlying GFS data are based on data provided by agencies applying AAS prior to the adoption of IFRS;

- 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 are 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.

Introduction of the call on resources series

The 2014-15 Budget introduces the call on resources series for the Australian Government general government sector at Table 3. Call on resources provides a measure of the aggregate level of receipts (both tax and non-tax) and borrowings required to fund government activities. Cash data for the call on resources series has been derived from the underlying and headline cash balance data series.

Deflating real spending growth by the Consumer Price Index

The 2014-15 Budget, including the historical series, calculates real spending growth using the Consumer Price Index (CPI) as the deflator. Previously the non-farm GDP deflator was used and has therefore been shown in this statement for comparative purposes. The non-farm GDP deflator incorporates fluctuations in global commodity prices which are not relevant in Government expenditures.

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	20.5	7,389	na	na	18.3	-	901	2.2
1971-72	9,135	20.5	8,249	4.1	4.7	18.5	-	886	2.0
1972-73	9,735	19.5	9,388	7.7	7.8	18.8	-	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	14.6	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	2.7	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	9.6	26.7	-	-7,008	-3.3
1984-85	58,817	25.0	64,853	9.1	9.0	27.6	-	-6,037	-2.6
1985-86	66,206	25.4	71,328	1.5	3.4	27.3	-	-5,122	-2.0
1986-87	74,724	26.1	77,158	-1.1	0.5	26.9	-	-2,434	-0.8
1987-88	83,491	25.6	82,039	-0.9	-0.3	25.2	-	1,452	0.4
1988-89	90,748	24.6	85,326	-3.1	-4.3	23.1	-	5,421	1.5
1989-90	98,625	24.4	92,684	0.6	2.7	22.9	-	5,942	1.5
1990-91	100,227	24.2	100,665	3.1	4.2	24.3	-	-438	-0.1
1991-92	95,840	22.7	108,472	5.7	5.8	25.6	-	-12,631	-3.0
1992-93	97,633	22.0	115,751	5.6	6.0	26.1	-	-18,118	-4.1
1993-94	103,824	22.2	122,009	3.5	4.4	26.1	-	-18,185	-3.9
1994-95	113,458	22.9	127,619	1.4	2.2	25.7	-	-14,160	-2.9
1995-96	124,429	23.5	135,538	1.9	3.2	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	-0.7	23.9	-	149	0.0
1998-99	152,063	24.5	148,175	4.1	4.9	23.9	-	3,889	0.6
1999-00	166,199	25.1	153,192	1.0	0.8	23.2	-	13,007	2.0
2000-01	182,996	25.9	177,123	9.1	10.8	25.1	-	5,872	0.8
2001-02	187,588	24.9	188,655	3.5	4.1	25.0	-	-1,067	-0.1
2002-03	204,613	25.5	197,243	1.4	1.4	24.6	-	7,370	0.9
2003-04	217,775	25.3	209,785	3.9	2.6	24.3	-	7,990	0.9
2004-05	235,984	25.6	222,407	3.5	2.0	24.1	-	13,577	1.5
2005-06	255,943	25.6	240,136	4.6	2.6	24.1	51	15,757	1.6
2006-07	272,637	25.1	253,321	2.5	0.5	23.3	2,127	17,190	1.6
2007-08	294,917	25.0	271,843	3.8	2.7	23.1	3,319	19,754	1.7
2008-09	292,600	23.2	316,046	12.7	10.4	25.1	3,566	-27,013	-2.1
2009-10	284,662	22.0	336,900	4.2	5.5	26.0	2,256	-54,494	-4.2
2010-11	302,024	21.5	346,102	-0.4	-3.1	24.6	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	22.2	371,032	4.8	5.2	25.0	2,203	-43,360	-2.9
2012-13	351,052	23.1	367,204	-3.2	-0.7	24.1	2,682	-18,834	-1.2
2013-14(e)	363,496	23.0	410,662	8.9	10.5	25.9	2,689	-49,855	-3.1
2014-15(e)	**385,778**	**23.6**	**412,484**	**-1.7**	**-0.1**	**25.3**	**3,068**	**-29,773**	**-1.8**
2015-16(e)	410,427	24.0	424,249	0.4	1.1	24.8	3,262	-17,084	-1.0
2016-17(p)	436,849	24.4	443,913	2.1	3.2	24.7	3,499	-10,562	-0.6
2017-18(p)	467,985	24.9	467,060	2.6	3.8	24.8	3,750	-2,825	-0.2

(a) Data have been revised in the 2014-15 Budget to improve accuracy and comparability through time.
(b) Receipts are equal to cash receipts from operating activities and sales of non-financial assets.
(c) Payments are equal to cash 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 calculated using the Consumer Price Index as the deflator. Real spending growth using non-farm GDP deflator is included for comparative purposes only.
(p) Projections.

Table 2: Australian Government general government sector net cash flows for investments in financial assets for policy purposes and headline cash balance[(a)]

	Receipts	Payments	Net cash flows from investments in financial assets for policy purposes(c)		Headline cash balance(d)	
	$m	$m	$m	Per cent of GDP	$m	Per cent of GDP
1970-71	8,290	7,389	-851	-2.1	50	0.1
1971-72	9,135	8,249	-987	-2.2	-101	-0.2
1972-73	9,735	9,388	-977	-2.0	-629	-1.3
1973-74	12,228	11,078	-1,275	-2.1	-125	-0.2
1974-75	15,643	15,463	-2,648	-3.7	-2,467	-3.5
1975-76	18,727	20,225	-2,040	-2.4	-3,539	-4.2
1976-77	21,890	23,157	-1,530	-1.6	-2,796	-2.9
1977-78	24,019	26,057	-1,324	-1.3	-3,361	-3.2
1978-79	26,129	28,272	-1,074	-0.9	-3,216	-2.7
1979-80	30,321	31,642	-702	-0.5	-2,024	-1.5
1980-81	35,993	36,176	-962	-0.6	-1,146	-0.8
1981-82	41,499	41,151	-1,008	-0.6	-660	-0.4
1982-83	45,463	48,810	-1,363	-0.7	-4,711	-2.5
1983-84	49,981	56,990	-1,136	-0.5	-8,144	-3.8
1984-85	58,817	64,853	-922	-0.4	-6,959	-3.0
1985-86	66,206	71,328	-810	-0.3	-5,932	-2.3
1986-87	74,724	77,158	-545	-0.2	-2,979	-1.0
1987-88	83,491	82,039	657	0.2	2,109	0.6
1988-89	90,748	85,326	168	0.0	5,589	1.5
1989-90	98,625	92,684	1,217	0.3	7,159	1.8
1990-91	100,227	100,665	1,563	0.4	1,125	0.3
1991-92	95,840	108,472	2,156	0.5	-10,475	-2.5
1992-93	97,633	115,751	2,471	0.6	-15,647	-3.5
1993-94	103,824	122,009	3,447	0.7	-14,738	-3.2
1994-95	113,458	127,619	1,546	0.3	-12,614	-2.5
1995-96	124,429	135,538	5,188	1.0	-5,921	-1.1
1996-97	133,592	139,689	7,241	1.3	1,142	0.2
1997-98	140,736	140,587	15,154	2.6	15,303	2.6
1998-99	152,063	148,175	6,948	1.1	10,837	1.7
1999-00	166,199	153,192	9,500	1.4	22,507	3.4
2000-01	182,996	177,123	5,673	0.8	11,545	1.6
2001-02	187,588	188,655	3,422	0.5	2,355	0.3
2002-03	204,613	197,243	-229	0.0	7,141	0.9
2003-04	217,775	209,785	-452	-0.1	7,538	0.9
2004-05	235,984	222,407	-1,139	-0.1	12,438	1.3
2005-06	255,943	240,136	-1,647	-0.2	14,160	1.4
2006-07	272,637	253,321	7,403	0.7	26,720	2.5
2007-08	294,917	271,843	5,108	0.4	28,181	2.4
2008-09	292,600	316,046	-7,889	-0.6	-31,336	-2.5
2009-10	284,662	336,900	-4,278	-0.3	-56,516	-4.4
2010-11	302,024	346,102	-7,028	-0.5	-51,106	-3.6
2011-12	329,874	371,032	-5,866	-0.4	-47,023	-3.2
2012-13	351,052	367,204	-4,802	-0.3	-20,954	-1.4
2013-14(e)	363,496	410,662	-6,575	-0.4	-53,741	-3.4
2014-15(e)	**385,778**	**412,484**	**-6,819**	**-0.4**	**-33,524**	**-2.1**
2015-16(e)	410,427	424,249	-12,787	-0.7	-26,609	-1.6
2016-17(p)	436,849	443,913	-15,592	-0.9	-22,656	-1.3
2017-18(p)	467,985	467,060	-12,358	-0.7	-11,432	-0.6

(a) Data have been revised in the 2014-15 Budget to improve accuracy and comparability through time.
(b) Prior to 1999-2000, net cash flows from investments in financial assets for policy purposes were referred to as 'net advances'. A negative number reflects a cash outflow, while a positive number reflects a cash inflow.
(c) Headline cash balance is equal to receipts less payments, plus net cash flows from investments in financial assets for policy purposes.
(e) Estimates.
(p) Projections.

Table 3: Australian Government general government sector call on resources[(a)]

	Receipts(b)		Headline cash balance(c)		Call on resources(d)	
	$m	Per cent of GDP	$m	Per cent of GDP	$m	Per cent of GDP
1970-71	8,290	20.5	50	0.1	8,240	20.4
1971-72	9,135	20.5	-101	-0.2	9,236	20.7
1972-73	9,735	19.5	-629	-1.3	10,364	20.8
1973-74	12,228	20.3	-125	-0.2	12,353	20.5
1974-75	15,643	22.0	-2,467	-3.5	18,110	25.4
1975-76	18,727	22.5	-3,539	-4.2	22,266	26.7
1976-77	21,890	22.8	-2,796	-2.9	24,686	25.7
1977-78	24,019	22.9	-3,361	-3.2	27,380	26.1
1978-79	26,129	22.0	-3,216	-2.7	29,345	24.7
1979-80	30,321	22.5	-2,024	-1.5	32,345	24.0
1980-81	35,993	23.6	-1,146	-0.8	37,139	24.4
1981-82	41,499	23.6	-660	-0.4	42,159	24.0
1982-83	45,463	24.0	-4,711	-2.5	50,174	26.5
1983-84	49,981	23.4	-8,144	-3.8	58,125	27.2
1984-85	58,817	25.0	-6,959	-3.0	65,776	27.9
1985-86	66,206	25.4	-5,932	-2.3	72,138	27.6
1986-87	74,724	26.1	-2,979	-1.0	77,703	27.1
1987-88	83,491	25.6	2,109	0.6	81,382	25.0
1988-89	90,748	24.6	5,589	1.5	85,159	23.0
1989-90	98,625	24.4	7,159	1.8	91,466	22.6
1990-91	100,227	24.2	1,125	0.3	99,102	23.9
1991-92	95,840	22.7	-10,475	-2.5	106,315	25.1
1992-93	97,633	22.0	-15,647	-3.5	113,280	25.5
1993-94	103,824	22.2	-14,738	-3.2	118,562	25.4
1994-95	113,458	22.9	-12,614	-2.5	126,072	25.4
1995-96	124,429	23.5	-5,921	-1.1	130,350	24.6
1996-97	133,592	24.0	1,142	0.2	132,450	23.8
1997-98	140,736	23.9	15,303	2.6	125,433	21.3
1998-99	152,063	24.5	10,837	1.7	141,226	22.8
1999-00	166,199	25.1	22,507	3.4	143,692	21.7
2000-01	182,996	25.9	11,545	1.6	171,451	24.3
2001-02	187,588	24.9	2,355	0.3	185,233	24.6
2002-03	204,613	25.5	7,141	0.9	197,472	24.6
2003-04	217,775	25.3	7,538	0.9	210,237	24.4
2004-05	235,984	25.6	12,438	1.3	223,546	24.2
2005-06	255,943	25.6	14,160	1.4	241,783	24.2
2006-07	272,637	25.1	26,720	2.5	245,918	22.6
2007-08	294,917	25.0	28,181	2.4	266,735	22.6
2008-09	292,600	23.2	-31,336	-2.5	323,935	25.7
2009-10	284,662	22.0	-56,516	-4.4	341,178	26.3
2010-11	302,024	21.5	-51,106	-3.6	353,130	25.1
2011-12	329,874	22.2	-47,023	-3.2	376,898	25.4
2012-13	351,052	23.1	-20,954	-1.4	372,006	24.4
2013-14(e)	363,496	23.0	-53,741	-3.4	417,237	26.4
2014-15(e)	**385,778**	**23.6**	**-33,524**	**-2.1**	**419,303**	**25.7**
2015-16(e)	410,427	24.0	-26,609	-1.6	437,036	25.6
2016-17(p)	436,849	24.4	-22,656	-1.3	459,505	25.6
2017-18(p)	467,985	24.9	-11,432	-0.6	479,417	25.5

(a) Data have been revised in the 2014-15 Budget to improve accuracy and comparability through time.
(b) Receipts are identical to those in Table 1.
(c) Headline cash balance is equal to receipts less payments, plus net cash flows from investments in financial assets for policy purposes. Headline cash balance is identical to those in Table 2.
(d) Call on resources is equal to receipts less headline cash balance.
(e) Estimates.
(p) Projections.

Table 4: 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	20.5
1971-72	7,895	17.7	1,240	2.8	9,135	20.5
1972-73	8,411	16.9	1,324	2.7	9,735	19.5
1973-74	10,832	17.9	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	21.5	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	23.2	8,257	2.9	74,724	26.1
1987-88	75,076	23.1	8,415	2.6	83,491	25.6
1988-89	83,452	22.6	7,296	2.0	90,748	24.6
1989-90	90,773	22.4	7,852	1.9	98,625	24.4
1990-91	92,739	22.4	7,488	1.8	100,227	24.2
1991-92	87,364	20.6	8,476	2.0	95,840	22.7
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	21.2	8,537	1.7	113,458	22.9
1995-96	115,700	21.9	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	2.3	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	24.9
2002-03	192,131	24.0	12,482	1.6	204,613	25.5
2003-04	206,091	23.9	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	25.6
2006-07	257,392	23.7	15,245	1.4	272,637	25.1
2007-08	278,376	23.6	16,540	1.4	294,917	25.0
2008-09	272,627	21.7	19,973	1.6	292,600	23.2
2009-10	260,973	20.1	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	20.9	19,931	1.3	329,874	22.2
2012-13	326,426	21.4	24,627	1.6	351,052	23.1
2013-14(e)	341,643	21.6	21,854	1.4	363,496	23.0
2014-15(e)	**360,372**	**22.1**	**25,407**	**1.6**	**385,778**	**23.6**
2015-16(e)	385,286	22.5	25,141	1.5	410,427	24.0
2016-17(p)	411,691	23.0	25,158	1.4	436,849	24.4
2017-18(p)	437,562	23.2	30,422	1.6	467,985	24.9

(a) Data have been revised in the 2014-15 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 5: 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	5.9	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	6.1	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	9.9	6,609	0.4
2012-13	152,982	10.0	8,285	0.5
2013-14(e)	197,851	12.5	10,725	0.7
2014-15(e)	**226,388**	**13.9**	**10,517**	**0.6**
2015-16(e)	246,362	14.4	11,549	0.7
2016-17(p)	261,280	14.6	12,210	0.7
2017-18(p)	264,200	14.0	12,923	0.7

(a) Data have been revised in the 2014-15 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 6: Australian Government general government sector face value of Commonwealth Government Securities (CGS) on issue and interest paid

	Face value of CGS on issue(a)					
	Total CGS on issue(b)		Subject to Treasurer's direction(c)		Interest Paid(d)	
	End of year $m	Per cent of GDP	End of year $m	Per cent of GDP	$m	Per cent of GDP
1970-71	10,887	27.0	-	-	580	1.4
1971-72	11,490	25.8	-	-	614	1.4
1972-73	12,217	24.5	-	-	675	1.4
1973-74	12,809	21.2	-	-	712	1.2
1974-75	14,785	20.8	-	-	893	1.3
1975-76	17,940	21.5	-	-	1,001	1.2
1976-77	20,845	21.7	-	-	1,485	1.5
1977-78	23,957	22.8	-	-	1,740	1.7
1978-79	28,120	23.7	-	-	2,080	1.8
1979-80	29,321	21.8	-	-	2,356	1.8
1980-81	30,189	19.8	-	-	2,723	1.8
1981-82	31,060	17.7	-	-	3,058	1.7
1982-83	37,071	19.6	-	-	3,580	1.9
1983-84	45,437	21.3	-	-	4,558	2.1
1984-85	54,420	23.1	-	-	5,952	2.5
1985-86	63,089	24.2	-	-	7,394	2.8
1986-87	67,172	23.4	-	-	8,339	2.9
1987-88	62,794	19.3	-	-	8,139	2.5
1988-89	56,854	15.4	-	-	8,222	2.2
1989-90	48,399	12.0	-	-	8,064	2.0
1990-91	48,723	11.7	-	-	6,994	1.7
1991-92	58,826	13.9	-	-	6,819	1.6
1992-93	76,509	17.2	-	-	6,487	1.5
1993-94	90,889	19.5	-	-	7,709	1.7
1994-95	105,466	21.3	-	-	9,144	1.8
1995-96	110,166	20.8	-	-	10,325	2.0
1996-97	111,067	19.9	-	-	10,653	1.9
1997-98	93,664	15.9	-	-	9,453	1.6
1998-99	85,331	13.8	-	-	9,299	1.5
1999-00	75,536	11.4	-	-	8,509	1.3
2000-01	66,403	9.4	-	-	7,335	1.0
2001-02	63,004	8.4	-	-	6,270	0.8
2002-03	57,435	7.2	-	-	4,740	0.6
2003-04	54,750	6.4	-	-	4,096	0.5
2004-05	55,151	6.0	-	-	3,902	0.4
2005-06	54,070	5.4	-	-	4,628	0.5
2006-07	53,264	4.9	-	-	3,959	0.4
2007-08	55,442	4.7	-	-	3,754	0.3
2008-09	101,147	8.0	95,103	7.6	3,970	0.3
2009-10	147,133	11.3	141,806	10.9	6,411	0.5
2010-11	191,292	13.6	186,704	13.3	9,551	0.7
2011-12	233,976	15.7	229,389	15.4	10,875	0.7
2012-13	257,378	16.9	252,791	16.6	11,846	0.8
2013-14(e)	320,000	20.2	320,000	20.2	13,935	0.9
2014-15(e)	**360,000**	**22.1**	**360,000**	**22.1**	**14,174**	**0.9**
2015-16(e)	390,000	22.8	390,000	22.8	15,442	0.9
2016-17(p)	430,000	24.0	430,000	24.0	16,188	0.9
2017-18(p)	450,000	23.9	440,000	23.4	17,011	0.9

(a) From 2013-14 onwards, data for CGS on issue are projections and are rounded to the nearest $10 billion.
(b) Total CGS on issue includes CGS held on behalf of the States and the Northern Territory, but excludes Commonwealth holdings of CGS.
(c) The face value of CGS subject to the Treasurer's Direction excludes the stock and securities outlined in subsection 51JA(2A) of the Commonwealth Inscribed Stock Act 1911. These are the same stock and securities that were excluded from the previous legislative debt limit. CGS on issue subject to the Treasurer's Direction are not available prior to 2008-09 because the limit was first introduced in July 2008.
(d) Interest paid consists of all cash interest payments of the general government sector, including those relating to CGS on issue.
(e) Estimates.
(p) Projections.

Table 7: 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	23.7	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	26.4	180,094	25.5	8	0.0	6,007	0.9
2001-02	190,488	25.3	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	25.0	660	0.1	6,148	0.7
2004-05	242,507	26.3	229,245	24.8	1,034	0.1	12,228	1.3
2005-06	261,238	26.2	242,334	24.3	2,498	0.3	16,406	1.6
2006-07	278,411	25.6	259,276	23.8	2,333	0.2	16,801	1.5
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	25.8	4,064	0.3	-29,743	-2.4
2009-10	292,767	22.6	340,208	26.2	6,433	0.5	-53,875	-4.2
2010-11	309,890	22.0	356,353	25.3	5,297	0.4	-51,760	-3.7
2011-12	338,109	22.8	378,005	25.4	4,850	0.3	-44,746	-3.0
2012-13	360,160	23.6	382,644	25.1	987	0.1	-23,472	-1.5
2013-14(e)	374,267	23.6	415,294	26.2	4,027	0.3	-45,055	-2.8
2014-15(e)	**391,348**	**24.0**	**414,845**	**25.4**	**2,359**	**0.1**	**-25,855**	**-1.6**
2015-16(e)	419,612	24.5	431,118	25.2	708	0.0	-12,214	-0.7
2016-17(p)	449,840	25.1	453,806	25.3	2,630	0.1	-6,596	-0.4
2017-18(p)	480,394	25.5	475,447	25.3	3,962	0.2	984	0.1

(a) Data have been revised in the 2014-15 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 8: 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	-10.4
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	-3.5	-144,485	-11.1
2010-11	-95,386	-6.8	-198,787	-14.1
2011-12	-247,208	-16.6	-355,834	-23.9
2012-13	-202,650	-13.3	-312,724	-20.5
2013-14(e)	-186,419	-11.8	-299,647	-18.9
2014-15(e)	**-212,010**	**-13.0**	**-329,239**	**-20.2**
2015-16(e)	-222,454	-13.0	-342,385	-20.0
2016-17(p)	-228,995	-12.8	-351,036	-19.6
2017-18(p)	-227,354	-12.1	-352,659	-18.7

(a) Data have been revised in the 2014-15 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 9: 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	26.4
2001-02	178,210	23.6	12,278	1.6	190,488	25.3
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	24.9	12,564	1.4	242,507	26.3
2005-06	245,716	24.6	15,522	1.6	261,238	26.2
2006-07	262,511	24.1	15,900	1.5	278,411	25.6
2007-08	286,229	24.3	17,500	1.5	303,729	25.8
2008-09	278,653	22.1	20,280	1.6	298,933	23.8
2009-10	268,000	20.7	24,767	1.9	292,767	22.6
2010-11	289,005	20.5	20,885	1.5	309,890	22.0
2011-12	316,779	21.3	21,330	1.4	338,109	22.8
2012-13	337,323	22.2	22,836	1.5	360,160	23.6
2013-14(e)	350,956	22.2	23,310	1.5	374,267	23.6
2014-15(e)	**368,814**	**22.6**	**22,534**	**1.4**	**391,348**	**24.0**
2015-16(e)	396,055	23.2	23,557	1.4	419,612	24.5
2016-17(p)	422,875	23.6	26,966	1.5	449,840	25.1
2017-18(p)	449,509	23.9	30,884	1.6	480,394	25.5

(a) Data have been revised in the 2014-15 Budget to improve accuracy and comparability through time.
(e) Estimates.
(p) Projections.

Table 10: 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	228,669	9,564
2004-05	235,984	222,407	13,577	29,621	28,071	1,550	257,946	242,818	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	351,052	367,204	-18,834	9,766	14,135	-4,369	358,088	378,609	-23,203
2013-14(e)	363,496	410,662	-49,855	11,304	-14,831	-3,527	372,415	-423,108	-50,693
2014-15(e)	**385,778**	**412,484**	**-29,773**	**11,165**	**-16,327**	**-5,162**	**395,374**	**-427,241**	**-31,867**
2015-16(e)	410,427	424,249	-17,084	na	na	na	na	na	na
2016-17(p)	436,849	443,913	-10,562	na	na	na	na	na	na
2017-18(p)	467,985	467,060	-2,825	na	na	na	na	na	na

(a) Data have been revised in the 2014-15 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 11: 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	168,958	3,085
1999-00	167,304	155,558	11,815	25,485	23,542	1,062	188,841	175,152	11,721
2000-01	186,110	180,094	6,007	25,869	24,762	-826	207,372	200,250	5,181
2001-02	190,488	193,041	-2,935	26,638	25,341	793	212,518	213,774	-2,142
2002-03	206,923	201,259	5,377	24,339	22,916	1,975	226,135	219,089	7,311
2003-04	222,168	215,361	6,148	25,449	23,444	2,143	241,873	233,060	8,291
2004-05	242,507	229,245	12,228	26,965	25,191	1,473	263,587	248,552	13,700
2005-06	261,238	242,334	16,406	28,143	29,531	-2,442	282,597	265,080	13,964
2006-07	278,411	259,276	16,801	15,443	16,360	-1,763	290,067	271,850	15,038
2007-08	303,729	280,188	20,948	6,854	6,686	-584	309,215	285,506	20,364
2008-09	298,933	324,612	-29,743	6,998	7,576	-1,495	303,733	329,991	-31,238
2009-10	292,767	340,208	-53,875	7,288	7,297	-1,079	298,412	345,863	-54,954
2010-11	309,890	356,353	-51,760	7,563	7,787	-1,446	315,688	362,375	-53,205
2011-12	338,109	378,005	-44,746	8,046	8,238	-2,158	344,507	384,595	-46,904
2012-13	360,160	382,644	-23,472	8,863	9,415	-4,189	367,306	390,342	-27,661
2013-14(e)	374,267	415,294	-45,055	9,520	10,984	-3,843	382,026	424,517	-48,898
2014-15(e)	**391,348**	**414,845**	**-25,855**	**9,871**	**11,759**	**-5,463**	**399,903**	**425,287**	**-31,318**
2015-16(e)	419,612	431,118	-12,214	na	na	na	na	na	na
2016-17(p)	449,840	453,806	-6,596	na	na	na	na	na	na
2017-18(p)	480,394	475,447	984	na	na	na	na	na	na

(a) Data have been revised in the 2014-15 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.