

## STATEMENT 2: FISCAL OUTLOOK

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

The fiscal outlook for the Australian Government remains positive, with an underlying cash surplus of \$2.4 billion. Across the forward estimates period, the Government has maintained the budget in surplus after providing for its *More help for families* package comprising \$19.2 billion in new assistance to families, \$14.7 billion in structural tax reform, and \$2.7 billion in incentives for saving for retirement.

Further reductions in net debt over the forward years are expected as the budget remains in surplus.

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## STATEMENT 2: FISCAL OUTLOOK

The fiscal outlook for the Australian Government remains positive, with an underlying cash surplus projected in 2004-05. Across the forward estimates period, the Government has maintained the budget in surplus after providing for its *More help for families* package comprising \$19.2 billion in new assistance to families, \$14.7 billion in structural tax reform, and \$2.7 billion in incentives for saving for retirement.

### BUDGET AGGREGATES

An underlying cash surplus of \$2.4 billion is estimated for 2004-05, compared to \$3.8 billion at the *Mid-Year Economic and Fiscal Outlook 2003-04* (MYEFO). Underlying cash surpluses are projected to continue across the forward estimates.

In accrual terms, a fiscal surplus in 2004-05 of \$0.7 billion is now forecast compared to \$1.6 billion at MYEFO. Fiscal surpluses are expected to continue across the forward estimates.

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

	Actual	Estimates		Projections		
	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
<b>Revenue (\$b)</b>	<b>175.0</b>	<b>186.2</b>	<b>193.2</b>	<b>201.4</b>	<b>212.2</b>	<b>223.1</b>
Per cent of GDP	23.2	23.0	22.5	22.2	22.2	22.1
<b>Expenses (\$b)</b>	<b>169.2</b>	<b>183.1</b>	<b>192.3</b>	<b>200.6</b>	<b>210.0</b>	<b>220.9</b>
Per cent of GDP	22.4	22.6	22.4	22.1	22.0	21.9
Net operating balance (\$b)	5.8	3.1	0.8	0.8	2.2	2.2
Net capital investment (\$b)	-0.2	0.0	0.1	0.0	-0.1	-0.4
<b>Fiscal balance (\$b)</b>	<b>6.0</b>	<b>3.0</b>	<b>0.7</b>	<b>0.7</b>	<b>2.3</b>	<b>2.6</b>
Per cent of GDP	0.8	0.4	0.1	0.1	0.2	0.3
<b>Underlying cash balance (\$b)</b>	<b>7.5</b>	<b>4.6</b>	<b>2.4</b>	<b>1.6</b>	<b>3.4</b>	<b>4.5</b>
Per cent of GDP	1.0	0.6	0.3	0.2	0.4	0.4
<i>Memorandum item:</i>						
Headline cash balance (\$b)	7.3	4.0	1.0	0.0	12.8	13.7

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

### VARIATIONS TO THE FISCAL BALANCE ESTIMATES

The downward revision of \$0.9 billion in the 2004-05 fiscal surplus since MYEFO largely reflects the impact of the Government's *More help for families* package (\$5.3 billion in 2004-05) and other policy initiatives, partly offset by higher than expected revenue from companies, superannuation funds and income tax withholding.

Table 2 provides a reconciliation of the fiscal balance estimates between the 2003-04 Budget, the 2003-04 MYEFO and the 2004-05 Budget.

**Table 2: Reconciliation of 2003-04 Budget, 2003-04 MYEFO and 2004-05 Budget fiscal balance estimates<sup>(a)</sup>**

	2003-04	2004-05	2005-06	2006-07
	\$m	\$m	\$m	\$m
<b>2003-04 Budget fiscal balance</b>	<b>711</b>	<b>-1,148</b>	<b>324</b>	<b>2,812</b>
Per cent of GDP	0.1	-0.1	0.0	0.3
<b>Changes between 2003-04 Budget and MYEFO</b>				
Effect of policy decisions(b)				
Revenue	-13	55	207	164
Expenses	1,005	1,461	1,224	1,285
Net capital investment	45	18	-3	-3
Total policy decisions	-1,063	-1,423	-1,014	-1,117
Effect of parameter and other variations				
Revenue	4,343	3,768	5,103	5,586
Expenses	-178	-410	638	999
Net capital investment	168	48	130	250
Total parameter and other variations	4,354	4,130	4,335	4,337
<b>2003-04 MYEFO fiscal balance</b>	<b>4,002</b>	<b>1,558</b>	<b>3,645</b>	<b>6,032</b>
Per cent of GDP	0.5	0.2	0.4	0.6
<b>Changes between MYEFO and 2004-05 Budget</b>				
Effect of policy decisions(b)				
Revenue	0	-1,796	-3,883	-4,587
Expenses	5,969	6,209	6,835	7,766
Net capital investment	169	189	151	45
Total policy decisions	-6,139	-8,194	-10,869	-12,398
Effect of parameter and other variations				
Revenue	3,542	6,133	5,712	6,321
Expenses	-1,691	-1,475	-2,248	-2,368
Net capital investment	53	274	24	31
Total parameter and other variations	5,180	7,334	7,936	8,658
<b>2004-05 Budget fiscal balance</b>	<b>3,044</b>	<b>698</b>	<b>712</b>	<b>2,291</b>
Per cent of GDP	0.4	0.1	0.1	0.2

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

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

### Variations in revenue estimates

Total revenue for 2004-05 has been revised up by \$4.3 billion since MYEFO. This is largely a consequence of a strong parameter-driven increase in expected revenue from companies, superannuation funds and also income tax withholding partly offset by lower than expected customs duty.

Total tax revenue in 2004-05 has increased by \$4.2 billion since MYEFO.

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- Income tax withholding has been increased by \$720 million, reflecting solid wages growth on top of strong employment and the introduction of the first round of income tax cuts commencing on 1 July 2004.
- Company tax revenue has been revised up by \$1.8 billion, reflecting a stronger outlook for company profits.
- Superannuation contributions and earnings taxation revenue has been revised up by \$930 million. However, the one-off impact of the Government's decision to extinguish its liabilities to the Telstra and Australia Post superannuation schemes with a payment of \$4.6 billion accounts for \$610 million of this increase.
- Customs duty revenue has been revised down by \$490 million, reflecting the impact of the higher exchange rate on the price of imports as well as tariff reductions under the Australia-United States Free Trade Agreement.
- Other individuals revenue has been revised up by \$170 million, reflecting higher profitability of small business enterprises.
- Petroleum excise revenue had been revised up by \$250 million, reflecting a higher crude oil price.

Policy decisions taken since the 2003-04 MYEFO are expected to reduce revenue by around \$1.8 billion in 2004-05 and around \$3.9 billion in 2005-06. The major policy decisions impacting on revenue over the four year period 2004-05 to 2007-08 are outlined below.

- The personal income tax cuts taking effect from 1 July 2004 and 1 July 2005 will reduce tax revenue by \$1.9 billion in 2004-05, \$3.8 billion in 2005-06, and \$14.7 billion over the forward estimates period.
- The further reductions in the superannuation surcharge rate in 2004-05, 2005-06 and 2006-07 will reduce revenue by \$610 million over the forward estimates period.
- Additional funding over four years for the Australian Taxation Office for increased compliance activities is expected to result in increased taxation revenue of \$251 million in 2004-05 and \$1.1 billion over the forward estimates period.
- The Australia-United States Free Trade Agreement, expected to come into force in January 2005, will reduce tariff revenue by \$190 million in 2004-05 and around \$1.5 billion over the forward estimates period.
- The application of withholding tax to certain payments made to foreign residents will increase taxation revenue by \$125 million in 2004-05 and \$540 million over the forward estimates period.

- The introduction of a new \$1 million threshold of wholesale value for wine producers will reduce wine equalisation tax revenue by \$58 million in 2004-05 and \$338 million over the forward estimates period.

In 2003-04, revenue has been revised up by \$3.5 billion since MYEFO reflecting significantly higher revenue from company tax and improvement in income tax withholding.

More detailed information on revenue can be found in Statement 5. A full description of all policy measures since MYEFO can be found in Budget Paper No. 2, *Budget Measures 2004-05*.

### **Variations in expense estimates**

Since MYEFO, estimated expenses for 2004-05 have increased by \$4.7 billion reflecting the impact of new policy decisions of \$6.2 billion, partly offset by parameter and other variations of \$1.5 billion.

Major new expense policy decisions affecting 2004-05 include \$3.4 billion (\$19.2 billion over five years) for the Government's *More help for families* package, including:

- \$2.5 billion to increase the rate of Family Tax Benefit (A) by \$600 per child a year along with a reduction in the income test taper rate;
- \$414 million for the relaxation of the income test for Family Tax Benefit (B); and
- \$559 million for the introduction from 1 July 2004 of a new Maternity Payment.

Other new policy decisions affecting 2004-05 include:

- \$254 million in 2004-05 (\$2.2 billion over five years from 2003-04) in additional funding for the *Investing in Australia's Aged Care: More Places, Better Care* package to improve the viability of aged care services and to assist financially disadvantaged residents with their accommodation costs;
- \$127 million in 2004-05 (\$543 million over the four years) for enhancements to MedicarePlus including improved access to the safety net, the increased bulk-billing incentive and two new Medicare Benefits Schedule items for services provided by allied health professionals and dentists;
- \$165 million in 2004-05 for continuing assistance to the Solomon Islands Government for a range of activities including the restoration of law and order and to support broad ranging reforms;
- \$157 million in 2004-05 (\$612 million over five years from 2003-04) for a range of national security measures under the *Investing in Australia's Security* package;

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- \$146 million in 2004-05 (\$717 million over five years from 2003-04) to the Australian Federal Police to provide management, infrastructure and capacity building assistance to the Royal Papua New Guinea Constabulary; and
- \$125 million in 2004-05 (\$132 million over three years) for the Australian Defence Force's contribution to Iraqi stabilisation and reconstruction.

In 2004-05, parameter and other revisions have reduced forecast expenses by \$1.5 billion, largely reflecting:

- a \$426 million reduction in estimated Family Tax Benefit expenses, primarily the result of higher than expected incomes reducing the expected number of recipients eligible for payments;
- a \$335 million fall in anticipated Newstart Allowance expenses, largely due to the stronger labour market reducing the expected number of unemployment benefit recipients;
- a \$122 million reduction in Child Care Benefit expenses, largely due to an increase in the proportion of outside school care expected to be used, combined with higher than previously forecast incomes of recipients leading to lower than estimated average rates of payment; and
- the regular draw-down of the conservative bias allowance reducing estimated expenses by around \$925 million each year from 2004-05.<sup>1</sup>

Offsetting these reductions in estimated expenses in 2004-05 are:

- a \$266 million increase in expenses for the Pharmaceutical Benefits Scheme, arising from continued legislative delays by the Senate in passing the proposed increases in the Pharmaceutical Benefits Scheme co-payment measure announced in the 2002-03 Budget;
- a \$216 million increase in Defence expenses reflecting the flow on effect of an increase in the non-farm GDP deflator in 2003-04, which is used to index Defence operating expenses; and
- a \$183 million increase in personal benefit expenses due to the flow on effect of an upwards revision to forecast Male Total Average Weekly Earnings growth in

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1 The forward estimates include an allowance for the established tendency of existing government policy (particularly demand driven programmes) to be higher than estimated in the forward years. This allowance known as the conservative bias allowance, is progressively reduced so that the budget year conservative bias allowance is zero by Budget night. The conservative bias allowance is a technique to provide for more reliable forward estimates.

2003-04, reflecting the Government's ongoing commitment to maintain selected pensions at 25 per cent of Male Total Average Weekly Earnings.

In 2003-04, estimated expenses have increased by \$4.3 billion since MYEFO. This largely reflects new spending of \$6.0 billion in 2003-04 including spending of \$2.2 billion for the \$600 payment to all Family Tax Benefit (A) eligible families under the *More help for families* package, \$513 million for a one-off grant to aged care providers as part of the *Investing in Australia's Aged Care: More Places, Better Care* package, \$255 million for a one-off lump sum payment to eligible carers, and a \$450 million grant to Australian Rail Track Corporation under AusLink.

This new spending in 2003-04 is partly offset by a reduction in Defence expenses of \$500 million resulting from the reallocation of Defence Capability Plan expenditure to beyond the forward years, a reduction in Budget Balancing Assistance to the States of \$327 million reflecting increased GST receipts, and a \$307 million reduction in drought assistance, largely reflecting lower than anticipated expenditure on Exceptional Circumstances interest rate relief. These variations have been partly offset by the regular draw-down of the provision for underspends.

More detailed information on expenses can be found in Statement 6. A full description of all policy measures since the MYEFO can be found in Budget Paper No. 2, *Budget Measures 2004-05*.

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

In 2004-05, forecast net capital investment has increased by \$463 million since the 2003-04 MYEFO. This increase represents the combined effect of:

- new policy decisions of \$189 million, including \$85 million for national security measures under the *Investing in Australia's Security* package, \$39 million for the refurbishment of Anzac Park East and West, and \$20 million for the redevelopment of detention facilities at Villawood and Maribrynong and the upgrade of the Baxter facility; and
- parameter and other variations of \$274 million, largely due to a projected increase in net housing investment by the Defence Housing Authority, reflecting higher than expected demand from defence personnel.

In 2003-04, estimated net capital investment has increased by \$222 million, largely reflecting \$114 million in capital funding to ensure Australia's preparedness to protect against the threat of Avian flu.

More detailed information on net capital investment can be found in Statement 6. A full description of all policy measures since the MYEFO can be found in Budget Paper No. 2, *Budget Measures 2004-05*.

## CASH FLOWS

In 2004-05, an underlying cash surplus of \$2.4 billion is now expected, compared with the MYEFO estimate of \$3.8 billion. The change in 2004-05 is largely due to the same variations as those impacting on the fiscal balance. The estimated underlying cash surplus for 2003-04 remains largely unchanged while the underlying cash surpluses for the forward estimates have been revised downwards.

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

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

	Estimates		Projections		
	2003-04	2004-05	2005-06	2006-07	2007-08
	\$b	\$b	\$b	\$b	\$b
Cash receipts					
Operating cash receipts	184.1	193.4	201.2	211.3	222.3
Capital cash receipts(b)	1.1	0.8	0.6	0.5	0.5
Total cash receipts	185.2	194.2	201.8	211.8	222.7
Cash payments					
Operating cash payments	178.0	188.9	197.3	205.9	215.9
Capital cash payments(c)	2.6	2.9	2.9	2.5	2.3
Total cash payments	180.6	191.8	200.2	208.4	218.2
Finance leases and similar arrangements(d)	0.0	0.0	0.0	0.0	0.0
<b>Underlying cash balance</b>	<b>4.6</b>	<b>2.4</b>	<b>1.6</b>	<b>3.4</b>	<b>4.5</b>
Per cent of GDP	0.6	0.3	0.2	0.4	0.4
<i>Memorandum items:</i>					
Net cash flows from investments in financial assets for policy purposes(e)	-0.6	-1.4	-1.6	9.4	9.2
<b>Headline cash balance</b>	<b>4.0</b>	<b>1.0</b>	<b>0.0</b>	<b>12.8</b>	<b>13.7</b>

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

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

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

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

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

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

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

	2003-04	2004-05	2005-06	2006-07
	\$m	\$m	\$m	\$m
<b>2003-04 Budget underlying cash balance</b>	<b>2,172</b>	<b>1,325</b>	<b>1,235</b>	<b>4,668</b>
<b>Changes from 2003-04 Budget to MYEFO</b>				
Effect of policy decisions(a)	-1,012	-1,116	-738	-833
Effect of parameter and other variations	3,475	3,621	4,110	3,897
<b>Total variations</b>	<b>2,463</b>	<b>2,504</b>	<b>3,372</b>	<b>3,064</b>
<b>2003-04 MYEFO underlying cash balance</b>	<b>4,635</b>	<b>3,829</b>	<b>4,608</b>	<b>7,733</b>
<b>Changes from MYEFO to 2004-05 Budget</b>				
Effect of policy decisions(a)	-4,255	-8,271	-11,055	-12,429
Effect of parameter and other variations	4,206	6,832	8,035	8,135
<b>Total variations</b>	<b>-49</b>	<b>-1,439</b>	<b>-3,020</b>	<b>-4,294</b>
<b>2004-05 Budget underlying cash balance</b>	<b>4,586</b>	<b>2,391</b>	<b>1,587</b>	<b>3,438</b>

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

While the 2004-05 underlying cash balance has decreased by \$1.4 billion since the MYEFO, the estimated fiscal balance has decreased by only \$0.9 billion. This difference primarily reflects a \$0.8 billion increase in accrual taxation revenue relative to taxation receipts due to a reassessment of the expected level of taxation liabilities identified but not expected to be received in 2004-05.

### Headline cash balance

A headline cash surplus of \$1.0 billion is now forecast for 2004-05 compared with a surplus of \$2.9 billion expected at MYEFO. The decrease in the headline cash surplus estimate since MYEFO largely reflects the decrease in the underlying cash balance.

In addition to the lower estimated underlying cash surpluses, the headline cash balance estimate for 2005-06 is reduced compared to MYEFO because of postponement in the expected sale of the Australian Government's remaining shareholding in Telstra.

### NET DEBT AND NET WORTH

With the budget remaining in cash surplus in 2004-05 and the forward years, further falls in net debt are expected. From its peak of 19.1 per cent of GDP in 1995-96, net debt is estimated to decrease to \$24.7 billion (2.9 per cent of GDP) by the end of 2004-05. Net interest payments are also expected to fall over the forward estimates.

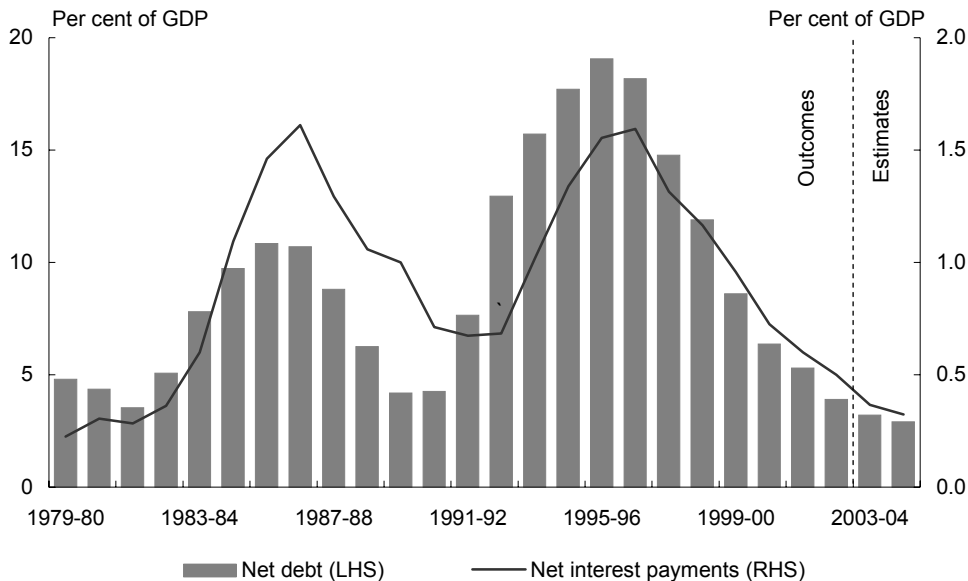
Table 5 and Chart 1 provide a summary of Australian Government general government sector net worth, net debt and net interest payments.

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

	Estimates		Projections		
	2003-04	2004-05	2005-06	2006-07	2007-08
	\$b	\$b	\$b	\$b	\$b
Financial assets	104.9	96.2	98.1	92.7	84.5
Non-financial assets	36.8	37.0	37.1	37.1	36.8
<b>Total assets</b>	<b>141.7</b>	<b>133.2</b>	<b>135.2</b>	<b>129.8</b>	<b>121.3</b>
<b>Total liabilities</b>	<b>185.3</b>	<b>176.1</b>	<b>178.1</b>	<b>168.3</b>	<b>158.8</b>
<b>Net worth</b>	<b>-43.5</b>	<b>-42.8</b>	<b>-42.9</b>	<b>-38.5</b>	<b>-37.4</b>
<b>Net debt(a)(b)</b>	<b>26.0</b>	<b>24.7</b>	<b>22.3</b>	<b>7.4</b>	<b>-8.3</b>
Per cent of GDP	3.2	2.9	2.5	0.8	-0.8
<b>Net interest payments(c)</b>	<b>3.0</b>	<b>2.9</b>	<b>3.8</b>	<b>2.6</b>	<b>1.4</b>
Per cent of GDP	0.4	0.3	0.4	0.3	0.1

- (a) Net debt equals the sum of deposits held, advances received, government securities, loans and other borrowing, minus the sum of cash and deposits, advances paid, and investments, loans and placements.  
 (b) Includes the impact of the further sale of the Australian Government's shareholdings in Telstra.  
 (c) Australian Government cash interest payments less cash interest receipts. The 2005-06 projections include the recognition in cash terms of the capital growth on inflation indexed bonds maturing in that year.

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



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

Australia's net debt is at low levels and is projected to fall over the forward estimates period. The level of Australia's net debt compares very favourably with other industrialised economies. The ratio of Australia's total general government sector net debt to GDP is among the lowest in the OECD, and is considerably lower than in Europe, Japan and the United States (see Statement 1).

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While declining over the forward estimates, the net debt estimates are higher than anticipated at MYEFO. This reflects a deferral in further sales of the Australian Government's shareholding in Telstra, payments to the Telstra Superannuation Scheme in 2003-04 and the Australia Post Superannuation Scheme in 2004-05 to extinguish Australian Government liabilities to the funds, and a reduction in the fiscal profile in 2004-05 to 2006-07.

Having peaked at \$8.4 billion in 1996-97, net interest payments are expected to decline to \$2.9 billion in 2004-05, representing annual savings in interest payments of around \$5.5 billion.

Net worth is expected to improve from -\$43.5 billion in 2003-04 to -\$37.4 billion in 2007-08, mainly reflecting the cumulative surpluses in the forward estimates.

## APPENDIX A: REPORTING STANDARDS

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

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

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

The ABS GFS publication (*Australian System of Government Finance Statistics: Concepts, Sources and Methods* Cat. No. 5514.0.55.001 released on 10 October 2003) requires that provisions for bad and doubtful debts be excluded from the balance sheet. This treatment has not been adopted because excluding such provisions would overstate the value of Australian Government assets in the balance sheet (and would, therefore, be inconsistent with the market valuation principle).

The AAS31 financial statements currently record International Monetary Fund (IMF) Special Drawing Rights (SDRs) as a liability. This is consistent with Australian Accounting Standards. The GFS statements also record SDRs as a liability. However, IMF SDRs are not treated as a liability in the ABS accrual GFS publication although they are treated this way in other IMF documentation. In view of these differences, the current approach will remain in place pending further consultation with the ABS and IMF, and developments in train to harmonise GFS and AAS.

Similarly, the GFS financial statements currently adopt the AAS31 financial statements' treatment for circulating coins. Under this treatment revenue is recognised upon the issue of coins and no liability is recorded, as there is no legal obligation requiring coins on issue to be repurchased by the Australian Government. However, in the ABS accrual GFS publication, coins on issue are treated as a liability and no revenue is recognised. This represents a change from that recommended in the previous ABS cash GFS *Concepts, Sources and Methods* publication. The current accounting treatment will remain in place pending further consultation with the ABS and IMF, and developments in train to harmonise GFS and AAS.

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The ABS GFS publication also requires defence weapons be treated as expenses. Defence weapons inventories are recorded as capital investment rather than expenses until such inventories can be reliably identified from other defence inventories and measured. The treatment of these inventories as capital or expenses has the same impact on the underlying cash and fiscal balances.

Public access communication assets, computer software and other intangibles are recorded at historic cost, as market value information, or suitable proxies for market value, are not readily observable for these items.

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

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

## APPENDIX B: BUDGET FINANCIAL STATEMENTS

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

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

	2003-04	2004-05	2005-06	2006-07	2007-08
	\$m	\$m	\$m	\$m	\$m
<b>Revenue</b>					
Taxation revenue	174,082	182,580	190,377	200,565	211,142
Current grants and subsidies	0	0	0	0	0
Sales of goods and services	4,192	4,266	4,404	4,537	4,615
Interest income	1,244	1,082	1,049	1,682	2,556
Dividend income	4,171	2,570	2,879	2,756	2,144
Other	2,507	2,653	2,675	2,660	2,672
<b>Total revenue</b>	<b>186,197</b>	<b>193,151</b>	<b>201,383</b>	<b>212,199</b>	<b>223,129</b>
<b>Expenses</b>					
Gross operating expenses					
Depreciation	1,593	1,933	2,130	2,195	2,254
Superannuation	1,946	2,213	2,162	2,101	2,160
Salaries and wages	11,989	12,011	12,408	12,705	12,833
Payment for supply of goods and services	40,014	43,330	44,282	46,302	48,941
Other operating expenses	2,312	2,443	2,419	2,418	2,412
<i>Total gross operating expenses</i>	<i>57,854</i>	<i>61,929</i>	<i>63,400</i>	<i>65,720</i>	<i>68,600</i>
Nominal superannuation interest expense	5,155	4,702	5,322	5,446	5,673
Other interest expenses	4,248	4,121	3,844	3,773	3,816
Other property expenses	0	0	0	0	0
Current transfers					
Grant expenses	34,634	37,083	37,872	38,802	40,315
Subsidy expenses	5,643	6,064	6,260	6,362	6,571
Personal benefit payments in cash	72,511	74,986	80,687	86,446	92,401
Other current transfers	0	0	0	0	0
<i>Total current transfers</i>	<i>112,788</i>	<i>118,133</i>	<i>124,819</i>	<i>131,610</i>	<i>139,287</i>
Capital transfers	3,091	3,421	3,240	3,485	3,562
<b>Total expenses</b>	<b>183,136</b>	<b>192,306</b>	<b>200,626</b>	<b>210,033</b>	<b>220,939</b>
<b>Net operating balance</b>	<b>3,061</b>	<b>846</b>	<b>758</b>	<b>2,167</b>	<b>2,190</b>
<b>Net acquisition of non-financial assets</b>					
Purchases of non-financial assets	2,618	2,856	2,705	2,549	2,363
<i>less</i> Sales of non-financial assets	879	727	642	484	484
<i>less</i> Depreciation	1,593	1,933	2,130	2,195	2,254
<i>plus</i> Change in inventories	106	-42	-69	21	4
<i>plus</i> Other movements in non-financial assets	-235	-6	182	-16	-58
<b>Total net acquisition of non-financial assets</b>	<b>18</b>	<b>148</b>	<b>45</b>	<b>-125</b>	<b>-429</b>
<b>Net lending/fiscal balance(a)</b>	<b>3,044</b>	<b>698</b>	<b>712</b>	<b>2,291</b>	<b>2,619</b>

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

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

	2003-04	2004-05	2005-06	2006-07	2007-08
	\$m	\$m	\$m	\$m	\$m
<b>Assets</b>					
Financial assets					
Cash and deposits	1,607	1,553	1,492	1,315	982
Advances paid	19,027	20,408	21,440	22,824	24,587
Investments, loans and placements(a)	19,668	8,756	8,722	8,717	8,759
Other non-equity assets	17,541	17,881	18,768	20,317	21,926
Equity(b)	47,061	47,636	47,632	39,555	28,275
<b>Total financial assets</b>	<b>104,905</b>	<b>96,234</b>	<b>98,055</b>	<b>92,728</b>	<b>84,529</b>
Non-financial assets					
Land	4,576	4,410	4,410	4,491	4,536
Buildings (excluding heritage)	13,417	13,377	13,483	13,535	13,589
Plant, equipment and infrastructure(c)	7,951	8,227	8,348	8,236	7,932
Inventories	4,237	4,195	4,126	4,146	4,150
Heritage and cultural assets(c)	4,949	4,950	4,953	4,956	4,957
Other non-financial assets	1,714	1,842	1,812	1,726	1,623
<b>Total non-financial assets</b>	<b>36,844</b>	<b>37,000</b>	<b>37,131</b>	<b>37,090</b>	<b>36,788</b>
<b>Total assets</b>	<b>141,749</b>	<b>133,234</b>	<b>135,185</b>	<b>129,818</b>	<b>121,317</b>
<b>Liabilities</b>					
Deposits held	325	325	325	325	325
Advances received	0	0	0	0	0
Government securities(a)	60,555	49,894	48,637	35,159	21,050
Loans	5,271	5,055	4,882	4,717	4,593
Other borrowing	175	138	100	89	54
Superannuation liability	87,869	89,007	92,157	95,226	98,545
Other employee entitlements and provisions	8,426	8,338	8,457	8,592	8,716
Other non-equity liabilities	22,672	23,311	23,554	24,225	25,466
<b>Total liabilities</b>	<b>185,294</b>	<b>176,069</b>	<b>178,111</b>	<b>168,333</b>	<b>158,750</b>
<b>Net worth(d)</b>	<b>-43,545</b>	<b>-42,836</b>	<b>-42,926</b>	<b>-38,515</b>	<b>-37,434</b>
Net debt(e)	26,024	24,696	22,289	7,435	-8,306

(a) For 2004-05 and the forward years, transactions relating to debt management activities in *Assets — Investments, Loans and Placements* and *Liabilities — Government Securities* have been netted. This treatment has been applied because of the uncertainty associated with the actual split between government securities and financial assets acquired for debt management purposes.

(b) Equity includes the valuation of the Telstra shareholding, which is valued at the average of the daily share price over a 90-day period, except in the sale years where the valuation is based on the expected sale price.

(c) Heritage and cultural assets were previously included in plant, equipment and infrastructure.

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

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

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

	2003-04	2004-05	2005-06	2006-07	2007-08
	\$m	\$m	\$m	\$m	\$m
<b>Cash receipts from operating activities</b>					
Taxes received	170,544	179,663	187,480	197,381	207,864
Receipts from sales of goods and services	4,342	4,433	4,578	4,703	4,790
Grants and subsidies received	0	0	0	0	0
Interest receipts	1,132	1,014	838	1,357	2,197
Dividends	3,207	3,214	3,199	2,756	2,144
GST input credits received by general government	2,461	2,653	2,629	2,714	2,841
Other receipts	2,417	2,455	2,459	2,432	2,426
<b>Total receipts</b>	<b>184,102</b>	<b>193,433</b>	<b>201,183</b>	<b>211,343</b>	<b>222,261</b>
<b>Cash payments for operating activities</b>					
Payments for goods and services	-44,041	-47,276	-48,098	-50,295	-53,086
Grants and subsidies paid	-41,793	-44,775	-46,040	-47,276	-48,966
Interest paid	-4,113	-3,888	-4,658	-3,917	-3,598
Personal benefit payments	-70,694	-75,246	-80,625	-86,007	-91,778
Salaries, wages and other entitlements	-16,768	-16,593	-16,602	-17,182	-17,367
GST payments by general government to taxation authority	-129	-131	-132	-138	-141
Other payments for operating activities	-499	-1,013	-1,194	-1,041	-1,004
<b>Total payments</b>	<b>-178,037</b>	<b>-188,922</b>	<b>-197,350</b>	<b>-205,855</b>	<b>-215,939</b>
<b>Net cash flows from operating activities</b>	<b>6,065</b>	<b>4,511</b>	<b>3,833</b>	<b>5,487</b>	<b>6,322</b>
<b>Cash flows from investments in non-financial assets</b>					
Sales of non-financial assets	1,112	804	647	489	487
Purchases of new and secondhand non-financial assets	-2,594	-2,917	-2,887	-2,509	-2,304
<b>Net cash flows from investments in non-financial assets</b>	<b>-1,482</b>	<b>-2,113</b>	<b>-2,240</b>	<b>-2,020</b>	<b>-1,817</b>
<b>Net cash flows from investments in financial assets for policy purposes</b>	<b>-599</b>	<b>-1,374</b>	<b>-1,560</b>	<b>9,395</b>	<b>9,230</b>
<b>Cash flows from investments in financial assets for liquidity purposes</b>					
Increase in investments	-70	-41	10	31	-21
<b>Net cash flows from investments in financial assets for liquidity purposes</b>	<b>-70</b>	<b>-41</b>	<b>10</b>	<b>31</b>	<b>-21</b>
<b>Cash flows from financing activities</b>					
Advances received (net)	0	0	0	0	0
Borrowing (net)	-1,697	315	-514	-13,548	-14,226
Deposits received (net)	-1	0	0	0	0
Other financing (net)	-2,948	-1,352	409	477	179
<b>Net cash flows from financing activities</b>	<b>-4,645</b>	<b>-1,037</b>	<b>-105</b>	<b>-13,071</b>	<b>-14,047</b>
<b>Net increase/decrease in cash held</b>	<b>-731</b>	<b>-54</b>	<b>-61</b>	<b>-177</b>	<b>-333</b>
<b>Net cash from operating activities and investments in non-financial assets</b>	<b>4,583</b>	<b>2,398</b>	<b>1,594</b>	<b>3,468</b>	<b>4,505</b>
Finance leases and similar arrangements <sup>(b)</sup>	3	-7	-7	-29	-4
<b>Equals underlying cash balance</b>	<b>4,586</b>	<b>2,391</b>	<b>1,587</b>	<b>3,438</b>	<b>4,501</b>
<i>plus</i> net cash flows from investments in financial assets for policy purposes	-599	-1,374	-1,560	9,395	9,230
<b>Equals headline cash balance</b>	<b>3,986</b>	<b>1,017</b>	<b>27</b>	<b>12,833</b>	<b>13,731</b>

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

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

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

	2003-04	2004-05	2005-06	2006-07	2007-08
	\$m	\$m	\$m	\$m	\$m
<b>Opening net worth</b>	<b>-50,442</b>	<b>-43,545</b>	<b>-42,836</b>	<b>-42,926</b>	<b>-38,515</b>
<b>Opening net worth adjustments(a)</b>	<b>-891</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Adjusted opening net worth</b>	<b>-51,333</b>	<b>-43,545</b>	<b>-42,836</b>	<b>-42,926</b>	<b>-38,515</b>
<b>Change in net worth from operating transactions</b>	<b>3,061</b>	<b>846</b>	<b>758</b>	<b>2,167</b>	<b>2,190</b>
<b>Change in net worth from other economic flows</b>					
Revaluation of equity(b)	3,210	637	34	3,253	19
Net writedowns of assets (including bad and doubtful debts)(c)	-2,189	-1,347	-1,408	-1,522	-1,627
Assets recognised for the first time(c)	-1	1	3	3	1
Defence weapon platform adjustment(c)	0	0	0	0	0
Liabilities recognised for the first time	0	0	0	0	0
Actuarial revaluations	840	0	0	0	0
Net foreign exchange gains	306	0	0	0	0
Net swap interest received	339	160	168	173	159
Market valuation of debt	1,809	454	304	222	209
Other economic revaluations(c)(d)	412	-42	50	115	130
<b>Total other economic flows</b>	<b>4,727</b>	<b>-136</b>	<b>-848</b>	<b>2,244</b>	<b>-1,108</b>
<b>Closing net worth</b>	<b>-43,545</b>	<b>-42,836</b>	<b>-42,926</b>	<b>-38,515</b>	<b>-37,434</b>

(a) Includes the initial recognition of a provision for asbestos related claims. At the time of the 2002-03 *Final Budget Outcome* a reliable actuarial measure was not available. Following an actuarial review a provision for asbestos related claims was included in the audited 2002-03 *Consolidated Financial Statements*. This liability has now been back-dated to 2002-03.

(b) Revaluations of equity reflects changes in the market valuation of commercial entities, including a change in the value of the Telstra shareholding which is valued at the average daily share price over a 90-day period, except in the sale years where the valuation is based on the expected sale price. This line also reflects any equity revaluations at the point of disposal or sale.

(c) Defence weapons are treated as expenses rather than assets under the GFS framework, hence changes in value do not contribute to net worth and are not included in other economic flows. The adjustment to remove defence weapons has now been reallocated to net writedown of assets, assets recognised for the first time and other economic revaluations.

(d) Largely reflects revaluation of assets and liabilities.

## APPENDIX C: SENSITIVITY OF FISCAL AGGREGATES TO ECONOMIC DEVELOPMENTS

A guide to the sensitivity of the forward estimates of expenses and revenue due to variations in economic parameters in 2004-05 is provided in Table C1. It is important to note that the sensitivity analysis gives only a 'rule of thumb' indication of the impact on the budget of changes in prices, wages and other parameters. In each case, the analysis presents the estimated effects of a change in one economic variable only, and does not attempt to capture the linkages between economic variables that characterise changes in the economy more broadly.

**Table C1: Sensitivity of fiscal aggregates to changes in economic parameters**

	2004-05	2005-06	2006-07	2007-08
	\$m	\$m	\$m	\$m
<b>Expenses</b>				
Prices	1,190	790	850	880
Wages	110	400	420	450
Unemployment benefit recipients	260	270	280	280
Safety Net Adjustment	30	120	200	280
<b>Revenue</b>				
Prices	50	100	100	100
Wages	1,420	1,520	1,630	1,740
Employment	960	1,030	1,100	1,180
Private final demand	270	280	280	290
Profit	190	300	320	340

### Expenses

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

#### Prices

All price deflators are assumed to change by one percentage point at the start of the September quarter 2004, with wage deflators left unchanged.

- The effect of a change in prices is due to the indexation of Australian Government expenses and a change in the nominal superannuation interest expense.

#### Wages

All wage and salary growth rates are assumed to change by one percentage point from the beginning of the September quarter 2004, with price deflators left unchanged.

- The effect of a change in wage and salary growth rates is largely due to the Government's commitment to maintain selected pensions at 25 per cent of Male Total Average Weekly Earnings. The wages effect in Table C1 above does not include changes to wage and salary payments in Australian Government departmental expenses.

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

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

#### **Safety Net Adjustment**

The Safety Net Adjustment determined by the Australian Industrial Relations Commission is assumed to change by \$2 per week, taking effect from the beginning of the September quarter 2004, and each year after that.

- About \$46 billion of expenses, comprising agency departmental expenses, other Australian Government Own Purpose Expenses and Specific Purpose Payments to the States of a departmental expense nature, are indexed to weighted averages of movements in inflation and the Safety Net Adjustment.
- The \$30 million figure in the Budget year is lower than in previous years. This is due to the reinstatement of rules preventing post-Budget retrospective adjustments to agencies and programmes funded through annual appropriations.

#### **Revenue**

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

#### **Prices**

All price deflators are assumed to change by one percentage point at the start of the September 2004 quarter, with wage deflators left unchanged.

- A change in prices affects revenue primarily through changes in excise revenue.

#### **Wages**

All wage and salary growth rates are assumed to change by one percentage point from the beginning of the September 2004 quarter, with price deflators left unchanged.

- A change in wage and salary growth rates affects revenue through changes in income tax withholding and fringe benefits tax collections.

**Employment**

The level of employment is assumed to change by one percentage point from the beginning of the September 2004 quarter, with no change in the composition of employment.

- A change in employment affects revenue through increases in income tax withholding collections.

**Private final demand**

The level of private final demand (consumption plus investment) is assumed to change by one percentage point from the beginning of the September 2004 quarter, with no change in the composition of demand.

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

**Profits**

The level of company profits is assumed to change by one percentage point from the beginning of the September 2004 quarter.

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