

PART 1: AUSTRALIAN GOVERNMENT BUDGET OUTCOME

OVERVIEW

In 2007-08, the Australian Government general government sector recorded an underlying cash surplus of \$19.7 billion, or 1.7 per cent of gross domestic product (GDP). The fiscal balance was in surplus by \$21.0 billion (1.9 per cent of GDP).

Table 1: Australian Government general government sector budget aggregates

	2006-07 Outcome	2007-08 Estimate at 2008-09 Budget	2007-08 Outcome
Revenue (\$b)	278.3	303.8	303.7
Per cent of GDP	26.6	26.9	26.9
Expenses (\$b)	259.1	280.6	280.1
Per cent of GDP	24.8	24.9	24.8
Net operating balance (\$b)	19.2	23.3	23.6
Net capital investment (\$b)	2.3	2.8	2.6
Fiscal balance (\$b)	16.8	20.4	21.0
Per cent of GDP	1.6	1.8	1.9
Underlying cash balance (\$b)(a)	17.2	16.8	19.7
Per cent of GDP	1.6	1.5	1.7
<i>Memorandum item:</i>			
Headline cash balance (\$b)	26.7	25.4	28.2

(a) Excludes Future Fund earnings.

In cash terms the outcome was \$2.9 billion higher than estimated at the time of the 2008-09 Budget, with total cash payments \$3.2 billion lower than expected and total cash receipts (excluding Future Fund earnings) \$0.4 billion lower than expected.

Australian Government general government sector net financial worth increased from -\$39.7 billion in 2006-07 to -\$17.8 billion at the end of 2007-08. Net worth increased from \$46.7 billion in 2006-07 to \$71.2 billion at the end of 2007-08. Over 2007-08, the level of Australian Government net debt improved to -\$42.9 billion by 30 June 2008.

REVENUE

Total accrual revenue was \$303.7 billion in 2007-08, which is \$0.1 billion lower than the estimate in the 2008-09 Budget. This reflects lower taxation revenue of \$153 million and higher non-taxation revenue of \$34 million.

Part 1: Australian Government Budget Outcome

The lower taxation revenue reflected weaker than expected company taxation revenue partly offset by higher than expected tax revenue from individuals and superannuation funds.

Company taxation revenue was \$1.7 billion (2.5 per cent) below the estimate in the 2008-09 Budget. This reflects lower than expected company earnings relating to the 2007 calendar year (primarily by mining companies), which reduced tax balancing payments in the June quarter of 2008.

Tax revenue from individuals was \$1.0 billion (0.8 per cent) higher than estimated in the 2008-09 Budget. This mainly reflected stronger than expected growth in capital gains, business, and investment income from the 2006-07 income year, which was collected on assessment in 2007-08. Tax revenue from superannuation funds was \$278 million (2.4 per cent) above the 2008-09 Budget estimate reflecting both greater than expected taxable contributions earned by funds during the March quarter and higher balancing payments from the 2006-07 income year. The capital gain income and associated tax revenue from superannuation funds in 2007-08 appear to have held up better than expected at Budget despite the financial turbulence that started in late 2007.

The \$34 million increase in non-taxation revenue largely reflects a change in accounting treatment for concessional loans of \$235 million following the review foreshadowed in the 2008-09 Budget (further details can be found in Part 2). This is largely offset by lower than expected non-taxation revenue across a range of agencies.

Table 2: Australian Government general government sector revenue

	2007-08 Estimate at 2008-09 Budget \$m	2007-08 Outcome \$m	Change on 2008-09 Budget \$m
Individuals and other withholding taxes(a)			
Gross income tax withholding	114,610	114,700	90
Gross other individuals	30,130	31,036	906
less: Refunds	19,640	19,601	-39
Total individuals and other withholding taxation	125,100	126,135	1,035
Fringe benefits tax	3,900	3,796	-104
Superannuation funds	11,710	11,988	278
Company tax	66,480	64,790	-1,690
Petroleum resource rent tax	1,840	1,871	31
Income taxation revenue	209,030	208,579	-451
Sales taxes			
Goods and services tax	44,370	44,381	11
Wine equalisation tax	670	661	-9
Luxury car tax	440	464	24
Other sales taxes	-20	-19	1
Total sales taxes	45,460	45,486	26
Excise duty			
Petrol	6,700	6,959	259
Diesel	6,700	6,674	-26
Other fuel products	1,060	1,105	45
Crude oil and condensate	470	346	-124
Beer	1,880	1,862	-18
Potable spirits	200	205	5
Other excisable beverages(b)	850	744	-106
Tobacco	5,530	5,631	101
Total excise duty revenue	23,390	23,526	136
Customs duty			
Textiles, clothing and footwear	950	960	10
Passenger motor vehicles	1,360	1,400	40
Excise-like goods	2,410	2,451	41
Other imports	1,500	1,497	-3
less: Refunds and drawbacks	230	237	7
Total customs duty revenue	5,990	6,070	80
Other indirect taxation			
Agricultural levies	577	611	33
Other taxes	1,935	1,957	22
Total other indirect taxation revenue	2,512	2,567	55
Indirect taxation revenue	77,352	77,650	298
Taxation revenue	286,382	286,229	-153
Sales of goods and services	5,369	5,263	-106
Dividends	2,904	2,848	-56
Interest received	5,195	5,558	363
Other non-taxation revenue	3,982	3,814	-167
Non-taxation revenue(c)	17,449	17,484	34
Total revenue(c)	303,831	303,713	-119

(a) The outcome includes Medicare levy revenue of \$8,049 million.

(b) Other excisable beverages are those not exceeding 10 per cent by volume of alcohol.

(c) Includes Future Fund earnings.

EXPENSES

Total accrual expenses were \$280.1 billion in 2007-08, \$0.4 billion lower than the estimate provided in the 2008-09 Budget. The major downward variations from the 2008-09 Budget estimates for 2007-08 include:

- an overstatement at budget of the Department of Education, Employment and Workplace Relations' expenses of \$987 million following the transfer of some programs in 2007-08 from the former Departments of Education, Science and Training, and Employment and Workplace Relations;
- lower than expected expenses of \$300 million in relation to the provision of GST revenue to the States and Territories due to a weaker than expected GST receipts outcome;
- lower than estimated civilian superannuation expenses of \$268 million primarily driven by the difference in planned asset earnings, discount rate and accrual estimates used to calculate the superannuation expenses and liabilities for outcomes and revised budget estimates;
- lower than anticipated expenses of \$271 million across a range of health programs, including medical indemnity, pharmaceutical and drug related programs;
- a decrease of \$209 million in expenses for the AusLink program mainly owing to an auditing adjustment requiring certain prepayments relating to progress in 2006-07 to be expensed in that financial year, rather than in 2007-08 as previously expected;
- lower than anticipated subsidy expenses of \$99 million to providers of residential care due to lower than expected take-up of aged care places, and delays in achieving building and development milestones under the capital grants program; and
- lower than estimated expenses of \$88 million in Exceptional Circumstances drought relief payments due to lower than anticipated take-up of this demand-driven program.

The lower than expected expenses in 2007-08 are partly offset by the regular provision for underspends included in the contingency reserve at the *Mid-Year Economic and Fiscal Outlook 2007-08*.

The downward variations were partly offset by higher than expected expenses across a number of programs, including:

- a change in accounting treatment for concessional loans of \$638 million following the review foreshadowed in the 2008-09 Budget (further details can be found in

Part 2). This is offset in part by a variation of \$235 million in non-taxation revenue resulting from this change, leaving a net impact of \$403 million;

- higher than expected claims received of \$471 million under the Superannuation Co-contribution scheme owing to a larger than estimated amount of prior year claims processed late in 2007-08;
- greater than expected expenses for Fuel Tax Credits of \$250 million relating to prior years' claims and growth in fuel consumption for eligible activities;
- an increase in expenses of \$160 million in Family Tax Benefits claimed through the Australian Taxation Office, owing to higher than expected entitlement amounts and take-up rates;
- greater than expected write-offs of tax penalties of \$146 million by the Australian Taxation Office;
- higher than expected demand for a range of medical services of \$139 million, including general practitioner, enhanced primary care, operations, diagnostic imaging and pathology services;
- higher than expected growth in claims for the Research and Development Tax Offset of \$111 million; and
- higher than expected participation in private health insurance, increasing rebate payments by \$91 million.

Table 3 provides information on Government Finance Statistics (GFS) general government sector expenses by function.

Table 3: Australian Government general government sector expenses by function

	2007-08 Estimate at 2008-09 Budget \$m	2007-08 Outcome \$m
General public services		
Legislative and executive affairs	987	961
Financial and fiscal affairs	5,849	6,102
Foreign affairs and economic aid	3,791	3,881
General research	2,522	2,146
General services	706	925
Government superannuation benefits	2,777	2,600
Defence(a)	17,366	17,670
Public order and safety	3,788	3,506
Education	18,620	18,433
Health	44,455	44,397
Social security and welfare	97,230	97,842
Housing and community amenities	3,083	2,910
Recreation and culture	2,826	3,207
Fuel and energy	5,103	5,361
Agriculture, forestry and fishing	4,085	3,834
Mining, manufacturing and construction	1,846	1,410
Transport and communication	4,486	4,129
Other economic affairs		
Tourism and area promotion	193	207
Total labour and employment affairs	4,958	4,506
Other economic affairs nec	1,315	1,213
Other purposes		
Public debt interest	3,538	3,544
Nominal superannuation interest	6,210	6,011
General purpose inter-governmental transactions	45,493	45,277
Natural disaster relief	99	28
Contingency reserve	-776	8
Total expenses	280,551	280,109

(a) From the 2008-09 Budget purchases of specialist military equipment are treated as net capital investment rather than as expenses.

NET CAPITAL INVESTMENT

Total net capital investment for 2007-08 was \$2.6 billion, which is \$244 million lower than estimated in the 2008-09 Budget. This primarily reflects reduction in inventories of \$46 million largely owing to delays in the replacement of the National Medical Stockpile inventory, and delays in purchases of non-financial assets of \$96 million that occurred across a range of agencies.

Table 4: Australian Government general government sector net capital investment by function

	2007-08 Estimate at 2008-09 Budget \$m	2007-08 Outcome \$m
General public services	194	372
Defence(a)	1,407	1,478
Public order and safety	152	139
Education	3	4
Health	143	46
Social security and welfare	297	175
Housing and community amenities	170	159
Recreation and culture	177	53
Fuel and energy	9	2
Agriculture, forestry and fishing	40	49
Mining, manufacturing and construction	31	9
Transport and communications	14	5
Other economic affairs	200	99
Other purposes	0	2
Total net capital investment	2,837	2,593

(a) From the 2008-09 Budget purchases of specialist military equipment are treated as net capital investment rather than as expenses.

CASH FLOWS

The 2007-08 underlying cash surplus was \$19.7 billion, \$2.9 billion higher than estimated at the 2008-09 Budget. The higher than anticipated outcome was the result of lower total cash payments¹ of \$3.2 billion and lower total cash receipts (excluding Future Fund earnings) of \$0.4 billion.

Total cash receipts (including Future Fund earnings) were \$294.9 billion in 2007-08, around \$0.7 billion lower than the estimate in the 2008-09 Budget. This reflected a \$0.2 billion decrease in taxation receipts and a \$0.5 billion decrease in non-taxation receipts. The decrease in non-taxation receipts includes a lower than anticipated outcome for Future Fund earnings of \$0.3 billion, which are not included in the underlying cash balance.

Total tax receipts were \$160 million below the estimate in the 2008-09 Budget primarily reflecting lower than expected receipts from company tax of \$1.1 billion and GST of \$364 million, largely offset by higher than expected receipts from individuals tax of \$956 million and superannuation funds tax of \$314 million.

1 Payments are equal to payments for operating activities, purchase of non-financial assets and net acquisition of assets under finance leases.

Part 1: Australian Government Budget Outcome

GST collections were lower than the estimate in the 2008-09 Budget reflecting weaker growth in taxable consumption and dwelling investment. The fall in GST receipts was not reflected in accrual revenue because of the recognition of additional accrued revenue in respect of 2007-08 and earlier income periods.

The smaller decline in company tax receipts relative to its accrual revenue equivalent was mainly due to higher provisions for refunds to taxpayers.

Tax receipts from fringe benefits tax were higher than the accrual revenue equivalent because of a delay in the payment of some refunds into 2008-09.

Total cash payments were \$271.8 billion in 2007-08, \$3.2 billion lower than estimated at the 2008-09 Budget.²

The difference between the lower than expected cash payments of \$3.2 billion and the lower than expected outcome for accrual expenses and net capital investment of \$0.7 billion primarily reflects the impact of increases in expenses that do not impact on cash payments, including:

- a change in accounting treatment for concessional loans of \$638 million following the review foreshadowed in the 2008-09 Budget (further details can be found in Part 2). This is offset in part by a variation of \$235 million in non-taxation revenue resulting from this change, leaving a net impact of \$403 million;
- higher than expected claims received of \$471 million under the Superannuation Co-contribution scheme owing to a larger than estimated amount of prior year claims being processed late in 2007-08;
- greater than expected expenses for Fuel Tax Credits of \$250 million relating to prior years' claims and growth in fuel consumption for eligible activities; and
- an increase in expenses of \$160 million in Family Tax Benefits claimed through the Australian Taxation Office, owing to higher than expected entitlement amounts and take-up rates.

These increases were partly offset by decreases in expenses that did not impact on cash payments, including:

- lower than estimated civilian superannuation expenses of \$268 million primarily driven by the difference in planned asset earnings, discount rate and accrual estimates used to calculate the superannuation expenses and liabilities for outcomes and revised budget estimates; and
- a decrease of \$209 million in expenses for the AusLink program mainly owing to an auditing adjustment requiring certain prepayments relating to progress in 2006-07 to be expensed in that financial year, rather than in 2007-08 as previously expected.

² Payments are equal to payments for operating activities, purchase of non-financial assets and net acquisition of assets under finance leases.

Table 5: Australian Government general government sector receipts

	2007-08 Estimate at 2008-09 Budget \$m	2007-08 Outcome \$m	Change on 2008-09 Budget \$m
Individuals and other withholding taxes(a)			
Gross income tax withholding	113,790	113,982	192
Gross other individuals	28,800	29,525	725
/less: Refunds	19,640	19,601	-39
Total individuals and other withholding taxation	122,950	123,906	956
Fringe benefits tax	3,860	3,856	-4
Superannuation funds	11,740	12,054	314
Company tax	62,800	61,700	-1,101
Petroleum resource rent tax	1,710	1,686	-24
Income taxation receipts	203,060	203,202	142
Sales taxes			
Goods and services tax	42,788	42,424	-364
Wine equalisation tax	660	665	5
Luxury car tax	440	452	12
Other sales taxes	0	0	0
Total sales taxes	43,888	43,541	-347
Excise duty			
Petrol	7,020	7,038	18
Diesel	6,700	6,750	50
Other fuel products	1,060	1,118	58
Crude oil	400	346	-54
Beer	1,880	1,883	3
Potable spirits	200	207	7
Other excisable beverages(b)	850	752	-98
Tobacco	5,530	5,632	102
Total excise duty receipts	23,640	23,727	87
Customs duty			
Textiles, clothing and footwear	950	956	6
Passenger motor vehicles	960	1,016	56
Excise-like goods	2,410	2,451	41
Other imports	1,490	1,495	5
/less: Refunds and drawbacks	370	356	-14
Total customs duty receipts	5,440	5,561	121
Other indirect taxation			
Agricultural levies	577	611	33
Other taxes	1,930	1,734	-196
Total other indirect taxation receipts	2,508	2,345	-163
Indirect taxation receipts	75,476	75,174	-302
Taxation receipts	278,536	278,376	-160
Sales of goods and services	5,340	5,051	-289
Dividends	2,904	2,622	-282
Interest received	5,102	4,769	-333
Other non-taxation receipts	3,740	4,099	358
Non-taxation receipts(c)	17,086	16,540	-545
Total receipts(c)	295,622	294,917	-705

(a) The outcome includes Medicare levy receipts of \$8,049 million.

(b) Other excisable beverages are those not exceeding 10 per cent by volume of alcohol.

(c) Includes Future Fund earnings.

Table 6: Summary of Australian Government general government sector cash flows

	2007-08 Estimate at 2008-09 Budget \$b	2007-08 Outcome \$b
Cash receipts		
Operating cash receipts excluding Future Fund earnings	291.7	291.3
Future Fund earnings	3.7	3.4
<i>Total operating receipts</i>	295.4	294.7
Capital cash receipts(a)	0.3	0.2
Total cash receipts	295.6	294.9
Cash payments		
Operating cash payments	267.5	264.5
Capital cash payments(b)	7.5	7.2
Total cash payments	275.1	271.7
Finance leases and similar arrangements(c)	0.0	-0.1
GFS cash surplus(+)/deficit(-)	20.5	23.1
Per cent of GDP	1.8	2.0
<i>less</i> Future Fund earnings	3.7	3.4
Underlying cash balance(d)	16.8	19.7
Per cent of GDP	1.5	1.7
<i>Memorandum items:</i>		
Net cash flows from investments in financial assets for policy purposes	4.8	5.1
<i>plus</i> Future Fund earnings	3.7	3.4
Headline cash balance	25.4	28.2

(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 new and second-hand 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 Future Fund earnings.

NET FINANCIAL WORTH, NET WORTH AND NET DEBT

Net financial worth increased from -\$39.7 billion in 2006-07 to -\$17.8 billion at the end of 2007-08. This increase was \$8.1 billion greater than estimated at the 2008-09 Budget. This change since the budget largely reflects a reduction in the superannuation liability owing to a difference in the estimated and actual discount rate at 30 June and a higher than anticipated underlying cash surplus outcome; which was partially offset by the concessional loans variation mentioned previously (further details can be found in Part 2).

Net worth increased from \$46.7 billion in 2006-07 to \$71.2 billion at the end of 2007-08. This increase was \$10.3 billion greater than estimated at the 2008-09 Budget. In addition to the changes in net financial worth since Budget, outlined above, the change

in net worth since Budget largely reflects an increase in value of the Government's land and buildings.

Over 2007-08, the level of Australian Government net debt improved to reach -\$42.9 billion by 30 June 2008. The improvement in net debt during 2007-08 was \$0.3 billion greater than estimated at the 2008-09 Budget, largely reflecting the higher than anticipated underlying cash surplus outcome, partially offset by the concessional loans variation mentioned previously.

Table 7: Australian Government general government sector net financial worth, net worth, net debt and net interest payments

	2007-08 Estimate at 2008-09 Budget \$b	2007-08 Outcome \$b
Financial assets	183.9	187.7
Non-financial assets	86.7	88.9
Total assets	270.6	276.7
Total liabilities	209.8	205.5
Net worth	60.8	71.2
Net financial worth(a)	-25.8	-17.8
Per cent of GDP	-2.3	-1.6
Net debt(b)(c)	-42.6	-42.9
Per cent of GDP	-3.8	-3.8
Net interest payments	-1.3	-1.0
Per cent of GDP	-0.1	-0.1

(a) Net financial worth equals total financial assets minus total liabilities. That is, it excludes non-financial assets.

(b) 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.

(c) Net debt includes the impact of the Future Fund rebalancing its portfolio allocation by increasing its holding of equities, which are not included in the calculation of net debt.

