

## PART 4: FISCAL OUTLOOK

### OVERVIEW

The Australian Government's underlying cash surplus for 2007-08 is estimated to be \$14.8 billion, \$4.2 billion higher than the 2007-08 Budget forecast. In accrual terms, a fiscal surplus of \$14.9 billion is estimated for 2007-08. The fiscal outlook is for continuing underlying cash and fiscal surpluses in the forward years.

**Table 6: Australian Government general government sector budget aggregates<sup>(a)(b)</sup>**

	Estimates(c)			
	2007-08		2008-09	
	Budget	MYEFO	Budget	MYEFO
<b>Revenue (\$b)</b>	<b>246.8</b>	<b>251.9</b>	<b>260.7</b>	<b>264.0</b>
Per cent of GDP	22.5	22.5	22.8	22.1
<b>Expenses (\$b)</b>	<b>235.6</b>	<b>235.4</b>	<b>247.5</b>	<b>248.6</b>
Per cent of GDP	21.5	21.0	21.6	20.8
Net operating balance (\$b)	11.2	16.5	13.2	15.4
Net capital investment (\$b)	1.2	1.6	1.4	1.8
<b>Fiscal balance (\$b)</b>	<b>10.0</b>	<b>14.9</b>	<b>11.9</b>	<b>13.6</b>
Per cent of GDP	0.9	1.3	1.0	1.1
<b>Underlying cash balance (\$b)(d)</b>	<b>10.6</b>	<b>14.8</b>	<b>12.7</b>	<b>14.4</b>
Per cent of GDP	1.0	1.3	1.1	1.2
<i>Memorandum item:</i>				
Headline cash balance (\$b)	<b>18.3</b>	<b>22.8</b>	<b>15.5</b>	<b>18.4</b>
	Projections			
	2009-10		2010-11	
	Budget	MYEFO	Budget	MYEFO
<b>Revenue (\$b)</b>	<b>274.6</b>	<b>278.7</b>	<b>287.3</b>	<b>287.5</b>
Per cent of GDP	23.1	22.4	22.9	22.1
<b>Expenses (\$b)</b>	<b>259.7</b>	<b>259.4</b>	<b>272.7</b>	<b>269.4</b>
Per cent of GDP	21.8	20.8	21.8	20.8
Net operating balance (\$b)	15.0	19.4	14.6	18.1
Net capital investment (\$b)	0.9	1.0	0.9	1.0
<b>Fiscal balance (\$b)</b>	<b>14.1</b>	<b>18.4</b>	<b>13.7</b>	<b>17.1</b>
Per cent of GDP	1.2	1.5	1.1	1.3
<b>Underlying cash balance (\$b)(d)</b>	<b>13.8</b>	<b>17.7</b>	<b>12.4</b>	<b>15.1</b>
Per cent of GDP	1.2	1.4	1.0	1.2
<i>Memorandum item:</i>				
Headline cash balance (\$b)	<b>14.8</b>	<b>19.1</b>	<b>13.3</b>	<b>16.4</b>

(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.

(b) Budget estimates, including the per cent of GDP, are as published in Budget Paper No. 1, *Budget Strategy and Outlook 2007-08*.

(c) For the 2007-08 MYEFO, 2008-09 has moved from a projection to an estimates year.

(d) Excludes expected Future Fund earnings.

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Table 7 provides a reconciliation of the fiscal balance estimates between the 2007-08 Budget and the *Mid-Year Economic and Fiscal Outlook 2007-08* (MYEFO).

**Table 7: Reconciliation of general government fiscal balance estimates<sup>(a)</sup>**

	Estimates		Projections	
	2007-08	2008-09	2009-10	2010-11
	\$m	\$m	\$m	\$m
<b>2007-08 Budget fiscal balance</b>	<b>9,999</b>	<b>11,860</b>	<b>14,101</b>	<b>13,704</b>
Per cent of GDP	0.9	1.0	1.2	1.1
<b>Changes between 2007-08 Budget and MYEFO</b>				
Effect of policy decisions(b)				
Revenue	-225	-6,659	-9,963	-14,604
Expenses	3,503	4,023	3,673	2,908
Net capital investment	181	84	112	324
Total policy decisions impact on fiscal balance	-3,909	-10,766	-13,748	-17,836
Effect of parameter and other variations				
Revenue	5,349	9,975	14,088	14,801
Expenses	-3,683	-2,874	-3,964	-6,144
Net capital investment	240	302	-10	-312
Total parameter and other variations impact on fiscal balance	8,792	12,548	18,062	21,256
<b>2007-08 MYEFO fiscal balance</b>	<b>14,882</b>	<b>13,642</b>	<b>18,415</b>	<b>17,125</b>
Per cent of GDP	1.3	1.1	1.5	1.3

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

## REVENUE

Total accrual revenue in 2007-08 is expected to be \$5.1 billion higher than forecast at the 2007-08 Budget, comprising an increase of \$4.8 billion in tax revenue and additional non-tax revenue of \$322 million.

Estimates for taxes from individuals and companies have been increased, reflecting stronger growth in employment, profits and realised capital gains. It is forecast that there will be 100,000 more people employed in 2007-08 than forecast at Budget. Superannuation funds taxation estimates have also been revised upwards owing to stronger than expected contributions and fund earnings, especially realised capital gains on equities. In addition, the 2007-08 revenue estimates have been increased owing to the flow on effects of the higher than expected revenue outcome in 2006-07, especially for company tax and superannuation funds tax. Box 1 provides information on the revisions to the parameters underpinning the revenue estimates since the 2007-08 Budget.

**Box 1: Parameter revisions to revenue estimates since Budget**

Since the 2007-08 Budget, substantial parameter and other variations have led to upward revisions to revenue. These revisions mainly reflect revised forecasts of national income and realised gains on assets. They primarily affect tax revenue from individuals, companies and superannuation funds.

Tax revenue estimates are sensitive to the economic forecasts, especially the amount of national income generated in the economy. Upward revisions to the level of national income, which includes labour income and company profits, increase the expected tax base and hence revenue collections. If the rise in the level of national income persists, revenue will remain higher on an ongoing basis. Changes in economic activity generally affect company and other tax revenue with some lag.

The Australian economy grew strongly in the first half of 2007, and surpassed the Budget GDP forecast for 2006-07. The momentum within the economy is expected to continue. Nominal GDP grew 1¼ percentage points faster in 2006-07 than anticipated at the 2007-08 Budget and is now expected to grow by an additional ¾ percentage points in 2007-08. This upward revision reflects stronger than expected demand in both the private and public sectors. Strong private demand has been driven by robust business investment, which is associated with higher than anticipated company profits. The strong demand arising from the private and public sectors has also led to stronger than anticipated employment growth and labour income. As a result, estimated income tax revenue in 2007-08 from individuals, companies and superannuation funds has been revised up.

In addition, the MYEFO revenue estimates for 2008-09 are based on *forecasts* of the economy rather than *projections* as used at Budget. At Budget, 2008-09 (then the first projection year) incorporated the first stage of a technical assumption that key commodity prices decline to their long-run average level over the first two projection years. Commodity prices are now forecast to rise modestly in 2008-09 reflecting an assessment of the continuing tight demand and supply conditions in global commodity markets. The higher than projected commodity prices, and the increased momentum in the economy, are expected to provide a substantial boost to company profits and other incomes in 2008-09. Overall, growth in nominal GDP in 2008-09 is forecast to be 2½ percentage points higher than the Budget projection.

The timing and extent of any adjustment to commodity prices, as well as its effect on the broader economy, remains uncertain. In response to this uncertainty, the MYEFO estimates retain the technical assumption that key commodity prices return to their long-run average level over the first two projection years (now updated to 2009-10 and 2010-11).

**Box 1: Parameter revisions to revenue estimates since Budget (continued)**

As well as upward revisions to GDP, and consistent with the stronger economic outcomes and outlook, asset prices have risen more strongly than estimated at Budget and are assumed to remain at higher levels. As a result, estimated capital gains tax revenue (collected from individuals, companies and superannuation funds) has been revised up across the estimates period, given higher expected growth in realised gains from shares and investment property.

Policy decisions taken since the 2007-08 Budget (up to and including 9 October 2007) have reduced revenue by \$225 million in 2007-08. Major policy decisions affecting revenue over the four year forward estimates period 2007-08 to 2010-11 include:

- personal income tax cuts, with effect from 1 July 2008, reducing revenue by \$34 billion over the forward estimates period;
- an increase in Australian Taxation Office funding to allow it to deploy additional staff and enhance compliance activity, increasing revenue by \$2 billion over the forward estimates period; and
- the requirement for all future superannuation contributions and balances for temporary residents to be paid to the Australian Government, with effect from 1 July 2008, increasing revenue by \$925 million over the forward estimates period.

A full list of revenue measures announced since the 2007-08 Budget is provided at Appendix A.

Detailed Australian Government general government sector revenue estimates for 2007-08, compared with the estimates published in the 2007-08 Budget, are provided in Table 8. Detailed cash estimates are in Table 13.

**Table 8: Australian Government general government sector revenue**

	2007-08			
	Budget \$m	MYEFO \$m	Change on Budget \$m	%
<i>Income taxation</i>				
Individuals and other withholding taxes(a)				
Gross income tax withholding	111,360	113,330	1,970	1.8
Gross other individuals	27,560	28,110	550	2.0
less: Refunds	19,360	19,790	430	2.2
Total individuals and other withholding taxation	119,560	121,650	2,090	1.7
Fringe benefits tax	4,110	3,970	-140	-3.4
Superannuation funds				
Contributions and earnings	8,210	10,050	1,840	22.4
Superannuation surcharge	90	80	-10	-11.1
Total superannuation taxation	8,300	10,130	1,830	22.0
Company tax	64,580	65,250	670	1.0
Petroleum resource rent tax	1,980	2,060	80	4.0
<b>Income taxation revenue</b>	<b>198,530</b>	<b>203,060</b>	<b>4,530</b>	<b>2.3</b>
<i>Excise and customs</i>				
Excise duty				
Petrol	7,070	7,110	40	0.6
Diesel	6,370	6,400	30	0.5
Other fuel products	980	980	0	0.0
Crude oil	310	340	30	9.7
Beer	1,880	1,890	10	0.5
Potable spirits	950	950	0	0.0
Tobacco	5,390	5,420	30	0.6
Total excise duty revenue	22,950	23,090	140	0.6
Customs duty				
Textiles, clothing and footwear	1,000	1,000	0	0.0
Passenger motor vehicles	1,340	1,360	20	1.5
Excise-like goods	2,270	2,340	70	3.1
Other imports	1,580	1,540	-40	-2.5
less: Refunds and drawbacks	230	230	0	0.0
Total customs duty revenue	5,960	6,010	50	0.8
<b>Excise and customs revenue</b>	<b>28,910</b>	<b>29,100</b>	<b>190</b>	<b>0.7</b>
<i>Other taxation</i>				
Wine equalisation tax	680	680	0	0.0
Luxury car tax	370	400	30	8.1
Agricultural levies	586	589	2	0.4
Other taxes	1,993	2,042	49	2.5
<b>Other taxation revenue</b>	<b>3,629</b>	<b>3,710</b>	<b>81</b>	<b>2.2</b>
<b>Taxation revenue</b>	<b>231,069</b>	<b>235,871</b>	<b>4,802</b>	<b>2.1</b>
<i>Non-taxation</i>				
Sales of goods and services	5,220	5,191	-29	-0.5
Dividends	2,966	2,707	-259	-8.7
Interest received	4,147	4,663	516	12.4
Other non-taxation revenue	3,357	3,451	94	2.8
<b>Non-taxation revenue</b>	<b>15,691</b>	<b>16,013</b>	<b>322</b>	<b>2.1</b>
<b>Total revenue</b>	<b>246,761</b>	<b>251,885</b>	<b>5,124</b>	<b>2.1</b>

(a) The MYEFO estimate includes Medicare levy revenue of \$7,820 million in 2007-08.

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The revenue estimates for 2007-08 are constructed using the revenue outcomes for 2006-07, information on revenue collections in the year to date and revised economic forecasts for 2007-08. As explained in Box 1, the estimates for 2008-09 are now based mainly on economic forecasts for that year whereas they were based on projections at the 2007-08 Budget. Revenue estimates for the current projection years – 2009-10 and 2010-11 – are based mainly on the level of economic activity at the end of the forecast period and underlying trends in economic activity (including the assumption of key commodity prices returning to their long run average level, in two equal steps over the two projection years).

Total taxation revenue for 2007-08 is expected to be \$4.8 billion higher than forecast at the 2007-08 Budget. The upward revision primarily stems from stronger growth in individuals' incomes, particularly from stronger employment, as well as higher company profits and earnings from superannuation funds.

Estimated total individuals and other withholding tax revenue has been increased by \$2.1 billion since the 2007-08 Budget.

Estimated gross income tax withholding revenue for 2007-08 has increased by \$2.0 billion since the 2007-08 Budget, in line with higher forecasts of labour income, particularly as a result of stronger employment growth. Estimated gross other individuals' tax has been revised up by \$550 million in 2007-08, primarily from upward revisions to forecast growth in property (rental and interest) income and higher realised capital gains. Individual refunds have been revised up by \$430 million, slightly offsetting the increase in tax paid by individuals. The increase in refunds reflects higher tax deductions (such as for personal superannuation contributions made by the self-employed) and the flow on effects of the stronger labour market outcomes in 2006-07 (which increase gross income tax withholding in 2006-07 and refunds in 2007-08).

Estimated superannuation tax revenue has been revised up by \$1.8 billion in 2007-08. This revision stems from the stronger than expected outcome in 2006-07, stronger growth in earnings expected by superannuation funds (especially realised capital gains) and higher contributions (including from the increased strength in the labour market and in response to the Better Super package).

Company tax revenue in 2007-08 is expected to be \$670 million higher than the 2007-08 Budget estimate, in line with higher company profit forecasts, higher expected realised capital gains from equities and the stronger than anticipated 2006-07 outcome.

The combined revenue from excise and customs duty in 2007-08 has been revised up by \$190 million in 2007-08, reflecting stronger expected consumption, including of imports, as well as higher CPI outcomes, which increase excise rates for alcohol and tobacco products.

Fringe benefits tax (FBT) revenue has been revised down by \$140 million in 2007-08 owing to lower than anticipated levels of salary packaging of items subject to FBT.

Expected revenue from other taxation in 2007-08 is estimated to be slightly higher than at the 2007-08 Budget.

Non-taxation revenue variations have increased revenue by \$322 million in 2007-08. This largely reflects an increase in interest received by the Australian Office of Financial Management on term deposits.

## EXPENSES

Estimated accrual expenses in 2007-08 have decreased by \$180 million since the 2007-08 Budget. This reflects a net decrease of \$3.7 billion due to parameter and other variations, partially offset by new policy measures of \$3.5 billion in 2007-08.

**Table 9: Reconciliation of general government sector expense estimates**

	Estimates		Projections	
	2007-08 \$m	2008-09 \$m	2009-10 \$m	2010-11 \$m
<b>2007-08 Budget expenses</b>	<b>235,590</b>	<b>247,489</b>	<b>259,652</b>	<b>272,669</b>
<b>Changes between 2007-08 Budget and MYEFO</b>				
Effect of policy decisions(a)	3,503	4,023	3,673	2,908
Effect of economic parameter variations				
Unemployment benefits	-407	-281	-326	-265
Prices and wages	412	1,136	1,294	1,044
Interest and exchange rates	0	0	0	0
<i>Total economic parameter variations</i>	<i>5</i>	<i>856</i>	<i>968</i>	<i>779</i>
Public debt interest	32	36	35	27
Programme specific parameter variations	-1,667	-1,821	-2,055	-2,077
Slippage in 2007-08 Budget decisions	0	0	0	0
Other variations(b)	-2,053	-1,946	-2,912	-4,874
<b>Total variations</b>	<b>-180</b>	<b>1,149</b>	<b>-291</b>	<b>-3,236</b>
<b>2007-08 MYEFO expenses</b>	<b>235,410</b>	<b>248,638</b>	<b>259,361</b>	<b>269,433</b>

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

(b) The contingency reserve includes 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 is zero by the budget. As is standard practice, the conservative bias has been reduced at this MYEFO in the forward years from 2008-09 onwards. Following a review by Treasury and the Department of Finance and Administration, the allowance in the contingency reserve at this MYEFO is 0.5 per cent in 2008-09, 1.25 per cent in 2009-10 and 2 per cent in 2010-11.

Policy decisions taken since the 2007-08 Budget (up to and including 9 October 2007) have increased estimated expenses by \$3.5 billion in 2007-08 and include:

- \$794 million in 2007-08 (\$1.5 billion over four years from 2006-07) in funding for drought relief, including income support and interest rate subsidies to assist farmers and small businesses most affected by the drought;

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- \$499 million in 2007-08 (\$688 million over four years) for the Northern Territory Emergency Response to strengthen child protection services, increase the provision of family and children's services, enhance indigenous employment opportunities and improve educational opportunities for children in remote communities;
- \$223 million in 2007-08 (\$1.8 billion over five years to 2011-12) for the Government's new Disability Assistance Package to address unmet need in the provision of services for people with disabilities, their families and carers;
- \$142 million in 2007-08 (\$393 million over five years from 2006-07) for workplace relations reforms, including the establishment of the Office of the Workplace Ombudsman and the Workplace Authority;
- \$112 million in 2007-08 (\$711 million over four years) for the listing of Lucentis® and Visudyne® on the Pharmaceutical Benefits Scheme for the treatment of age-related macular degeneration;
- \$110 million in 2007-08 (\$393 million over four years) to increase the number of Work Skills Vouchers that provide Australians aged 25 years and over who do not have a Year 12 or equivalent qualification with a voucher up to the value of \$3,000 to help improve their qualifications; and
- \$101 million in 2007-08 (\$336 million over four years) for the Green Vouchers for Schools programme, which encourages improved energy and water efficiency through rebates for the installation of solar hot water systems and/or specified rainwater tanks.

A full list of expense measures announced since the 2007-08 Budget is provided at Appendix A.

Since the 2007-08 Budget, parameter and other variations have reduced estimated expenses by \$3.7 billion in 2007-08. This includes:

- a \$945 million reduction in estimated Newstart Allowance expenses as a result of lower average rates of payments to recipients due to higher reported incomes, and a larger than previously anticipated fall in the forecast number of unemployment benefit recipients, reflecting improved labour market conditions and the greater than expected impact of the Welfare to Work measures;
- a \$554 million reduction in estimated expenses due to a change in accounting that recognises education expenses when grants are due to be paid, rather than at the beginning of the calendar year. This accounting change has no impact on actual cash payments to schools (see Box 2 in Attachment E for further information);

- a \$486 million reduction in estimated Family Tax Benefit (FTB) expenses due to lower than expected numbers of customers receiving FTB and decreases in average rates of payments resulting from higher family incomes;
- a \$440 million reduction in estimated expenses due to reprogramming into future years of spending on a number of Defence acquisition projects;
- a \$268 million reduction in forecast Parenting Payment expenses due to lower than previously anticipated customer numbers resulting from stronger than expected labour market conditions and lower average rates received by recipients due to higher reported incomes;
- a \$197 million reduction in estimated expenses for the Age Pension as a result of lower than expected customer numbers and average payment rates;
- a \$105 million reduction in estimated expenses arising from a revised implementation timetable for the Access Card;
- an \$88 million reduction in estimated expenses for the Pharmaceutical Benefits Scheme, primarily due to a price reduction for the drug Simvastatin and the delisting of Prexige®;
- a \$48 million reduction in estimated expenses for the Community Development and Employment Programme due to lower than expected take-up of programme places; and
- a reduction in expense estimates following the inclusion of a provision for underspends in 2007-08. A provision is included each year at the MYEFO update to provide for the established tendency of agencies to underspend their budgets in the current financial year.

These reductions in expenses have been partially offset by:

- a \$106 million increase in estimated Medicare Services expenses primarily due to a higher than anticipated level of patient access to psychiatrists, psychologists and General Practitioners for mental health care services under the Medicare Benefits Schedule;
- a \$50 million increase in estimated Disability Support Pension expenses primarily due to higher than expected customer numbers; and
- a \$46 million increase in estimated Community Pharmacy and Pharmacy Awareness expenses as a result of a higher than forecast take-up by pharmacies of the Pharmaceutical Benefits Scheme Online claiming facility.

## NET CAPITAL INVESTMENT

Estimated net capital investment in 2007-08 has increased by \$421 million since the 2007-08 Budget. This partially reflects new policy decisions of \$181 million, including:

- \$57 million in 2007-08 for the Northern Territory Emergency Response for short-term accommodation, computer and communications infrastructure and other capital investment;
- \$28 million in 2007-08 (\$86 million over four years) for the Standard Business Reporting programme, to cut the red tape confronting business when reporting to government; and
- \$27 million in 2007-08 to upgrade information technology systems to improve border security arrangements for travellers entering Australia.

Other variations have increased forecast net capital investment by \$240 million, primarily due to the implementation of a substantial capital programme by Defence Housing Australia to replace expiring leases (\$211 million).

**Table 10: Reconciliation of general government sector net capital investment estimates<sup>(a)</sup>**

	Estimates		Projections	
	2007-08 \$m	2008-09 \$m	2009-10 \$m	2010-11 \$m
<b>2007-08 Budget net capital investment</b>	<b>1,171</b>	<b>1,377</b>	<b>861</b>	<b>939</b>
<b>Changes between 2007-08 Budget and MYEFO</b>				
Effect of policy decisions(b)	181	84	112	324
Effect of parameter and other variations	240	302	-10	-312
<b>Total variations</b>	<b>421</b>	<b>386</b>	<b>102</b>	<b>12</b>
<b>2007-08 MYEFO net capital investment</b>	<b>1,592</b>	<b>1,763</b>	<b>963</b>	<b>951</b>

(a) Net capital investment is defined as net acquisition of non-financial assets.

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

## CASH FLOWS

In 2007-08, the underlying cash balance is expected to be a surplus of \$14.8 billion, compared to an estimate of \$10.6 billion at the 2007-08 Budget.

**Table 11: Summary of Australian Government general government sector cash flows (\$b)<sup>(a)</sup>**

	Estimates			
	2007-08		2008-09	
	Budget	MYEFO	Budget	MYEFO
Cash receipts				
Operating cash receipts				
excluding Future Fund earnings	242.4	248.2	256.2	260.3
Future Fund earnings	3.0	3.4	2.8	3.1
<b>Total operating receipts</b>	<b>245.4</b>	<b>251.5</b>	<b>259.0</b>	<b>263.3</b>
Capital cash receipts(b)	0.3	0.3	0.2	0.3
<b>Total cash receipts</b>	<b>245.6</b>	<b>251.8</b>	<b>259.2</b>	<b>263.6</b>
Cash payments				
Operating cash payments	228.3	229.7	239.8	241.9
Capital cash payments(c)	3.7	3.9	3.4	3.7
<b>Total cash payments</b>	<b>232.0</b>	<b>233.6</b>	<b>243.2</b>	<b>245.6</b>
Finance leases and similar arrangements(d)	0.0	0.0	-0.5	-0.5
<b>GFS cash surplus(+)/deficit(-)</b>	<b>13.6</b>	<b>18.2</b>	<b>15.5</b>	<b>17.5</b>
Per cent of GDP	1.2	1.6	1.4	1.5
<i>less</i> Future Fund earnings	3.0	3.4	2.8	3.1
<b>Underlying cash balance(e)</b>	<b>10.6</b>	<b>14.8</b>	<b>12.7</b>	<b>14.4</b>
Per cent of GDP	1.0	1.3	1.1	1.2
<i>Memorandum items:</i>				
Net cash flows from investments in financial assets for policy purposes(f)	4.7	4.6	0.0	0.9
<i>plus</i> Future Fund earnings(g)	3.0	3.4	2.8	3.1
<b>Headline cash balance</b>	<b>18.3</b>	<b>22.8</b>	<b>15.5</b>	<b>18.4</b>
	Projections			
	2009-10		2010-11	
	Budget	MYEFO	Budget	MYEFO
Cash receipts				
Operating cash receipts				
excluding Future Fund earnings	269.9	274.6	282.7	283.2
Future Fund earnings	2.9	3.2	3.0	3.3
<b>Total operating receipts</b>	<b>272.8</b>	<b>277.8</b>	<b>285.7</b>	<b>286.6</b>
Capital cash receipts(b)	0.1	0.3	0.1	0.1
<b>Total cash receipts</b>	<b>272.9</b>	<b>278.1</b>	<b>285.8</b>	<b>286.6</b>
Cash payments				
Operating cash payments	252.9	253.6	267.2	264.9
Capital cash payments(c)	3.3	3.6	3.2	3.4
<b>Total cash payments</b>	<b>256.2</b>	<b>257.1</b>	<b>270.4</b>	<b>268.2</b>
Finance leases and similar arrangements(d)	0.0	0.0	0.0	0.0
<b>GFS cash surplus(+)/deficit(-)</b>	<b>16.7</b>	<b>20.9</b>	<b>15.4</b>	<b>18.4</b>
Per cent of GDP	1.4	1.7	1.2	1.4
<i>less</i> Future Fund earnings	2.9	3.2	3.0	3.3
<b>Underlying cash balance(e)</b>	<b>13.8</b>	<b>17.7</b>	<b>12.4</b>	<b>15.1</b>
Per cent of GDP	1.2	1.4	1.0	1.2
<i>Memorandum items:</i>				
Net cash flows from investments in financial assets for policy purposes(f)	-1.9	-1.8	-2.1	-2.0
<i>plus</i> Future Fund earnings (g)	2.9	3.2	3.0	3.3
<b>Headline cash balance</b>	<b>14.8</b>	<b>19.1</b>	<b>13.3</b>	<b>16.4</b>

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

(b) Equivalent to cash receipts from the sale of non-finance 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) Excludes Future Fund earnings.

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

(g) The earnings assume the second instalment of proceeds from Telstra 3 are transferred to the Future Fund. The Fund is assumed to earn a rate of return that exceeds the yield on term deposits held by the Government but reflects an incremental transition to the long term benchmark return specified in the Government's Future Fund investment mandate. The earnings exclude capital gains which are reflected in the statement of other economic flows.

Part 4: Fiscal outlook

The difference between the higher underlying cash balance of \$4.2 billion and the higher fiscal balance of \$4.9 billion is primarily due to the change in accounting for education expenses (\$554 million) which reduces accrual expenses but not cash, and an increase in earnings of the Future Fund due to the transfer of an additional \$7.0 billion from the 2006-07 surplus which are excluded from the underlying cash balance.

Table 12 provides a reconciliation of the variations in the underlying cash balance estimates.

**Table 12: Reconciliation of Australian Government general government sector underlying cash balance estimates**

	Estimates		Projections	
	2007-08 \$m	2008-09 \$m	2009-10 \$m	2010-11 \$m
<b>2007-08 Budget underlying cash balance(a)</b>	<b>10,637</b>	<b>12,712</b>	<b>13,812</b>	<b>12,447</b>
<b>Changes from 2007-08 Budget to MYEFO</b>				
Effect of policy decisions(b)	-3,886	-10,840	-13,859	-17,996
Effect of parameter and other variations	8,083	12,525	17,776	20,638
<b>Total variations</b>	<b>4,197</b>	<b>1,685</b>	<b>3,917</b>	<b>2,642</b>
<b>2007-08 MYEFO underlying cash balance(a)</b>	<b>14,834</b>	<b>14,396</b>	<b>17,729</b>	<b>15,089</b>

(a) Excludes expected Future Fund earnings.

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

Total receipts in 2007-08 are expected to be \$5.8 billion (excluding Future Fund earnings) higher than forecast at the 2007-08 Budget, comprising \$5.0 billion in tax receipts and \$877 million in non-tax receipts. Similar to the revision to the revenue estimates, the revisions to tax receipts are driven by upward revisions to the forecasts of labour market outcomes and company profits, combined with expected stronger growth in realised capital gains and the flow on effects of the higher than expected outcome in 2006-07.

**Table 13: Australian Government general government sector receipts**

	2007-08		Change on Budget	
	Budget \$m	MYEFO \$m	\$m	%
<i>Income taxation</i>				
Individuals and other withholding taxes(a)				
Gross income tax withholding	110,690	112,730	2,040	1.8
Gross other individuals	26,620	27,140	520	2.0
less: Refunds	19,360	19,790	430	2.2
Total individuals and other withholding taxation	117,950	120,080	2,130	1.8
Fringe benefits tax	4,050	3,880	-170	-4.2
Superannuation funds				
Contributions and earnings	8,160	10,000	1,840	22.5
Superannuation surcharge	120	120	0	0.0
Total superannuation taxation	8,280	10,120	1,840	22.2
Company tax	62,964	63,830	866	1.4
Petroleum resource rent tax	1,890	1,950	60	3.2
<b>Income taxation receipts</b>	<b>195,134</b>	<b>199,860</b>	<b>4,726</b>	<b>2.4</b>
<i>Excise and customs</i>				
Excise duty				
Petrol	7,060	7,070	10	0.1
Diesel	6,370	6,400	30	0.5
Other fuel products	980	980	0	0.0
Crude oil	310	340	30	9.7
Beer	1,880	1,890	10	0.5
Potable spirits	950	950	0	0.0
Tobacco	5,390	5,420	30	0.6
Total excise duty receipts	22,940	23,050	110	0.5
Customs duty				
Textiles, clothing and footwear	1,000	1,000	0	0.0
Passenger motor vehicles	940	960	20	2.1
Excise-like goods	2,270	2,340	70	3.1
Other imports	1,570	1,530	-40	-2.5
less: Refunds and drawbacks	370	370	0	0.0
Total customs duty receipts	5,410	5,460	50	0.9
<b>Excise and customs receipts</b>	<b>28,350</b>	<b>28,510</b>	<b>160</b>	<b>0.6</b>
<i>Other taxation</i>				
Wine equalisation tax	670	670	0	0.0
Luxury car tax	360	390	30	8.3
Agricultural levies	586	589	2	0.4
Other taxes	1,757	1,800	43	2.4
<b>Other taxation receipts</b>	<b>3,373</b>	<b>3,448</b>	<b>75</b>	<b>2.2</b>
<b>Taxation receipts</b>	<b>226,857</b>	<b>231,818</b>	<b>4,961</b>	<b>2.2</b>
<i>Non-taxation</i>				
Sales of goods and services	5,437	5,445	8	0.2
Dividends(b)	2,926	2,692	-234	-8.0
Interest received(b)	3,992	4,482	490	12.3
Other non-taxation receipts	6,399	7,402	1,004	15.7
<b>Non-taxation receipts</b>	<b>18,754</b>	<b>20,022</b>	<b>1,268</b>	<b>6.8</b>
<b>Total receipts</b>	<b>245,611</b>	<b>251,840</b>	<b>6,229</b>	<b>2.5</b>

(a) The MYEFO estimate includes Medicare levy receipts of \$7,820 million in 2007-08.

(b) Includes earnings of the Future Fund.

## **NET DEBT AND NET WORTH**

Net debt was eliminated in 2005-06, falling from a peak of 18.5 per cent of GDP in 1995-96. Since Budget, the forecast level of net debt for 2007-08 has improved from -\$12.0 billion to -\$16.1 billion (-1.4 per cent of GDP). The improvement largely reflects the higher underlying cash surplus.

As a result of the elimination of net debt, the Government is expected to earn net interest receipts of \$0.8 billion in 2007-08. Prior to 2007-08 the Government made annual net interest payments, which peaked at \$8.4 billion in 1996-97.

Net worth measures the value of all government assets less liabilities. It therefore represents the government's contribution to national wealth. Net worth includes many items not included in net debt, such as the superannuation liability currently valued at around \$107 billion. As the broadest measure of the government's financial position, net worth is a key indicator of fiscal sustainability. A strong net worth position improves the government's ability to meet the fiscal consequences of an ageing population.

Net worth is expected to be \$17.2 billion (1.5 per cent of GDP) in 2007-08, compared with the Budget estimate of -\$0.6 billion. Over the forward estimates net worth is projected to improve further.

The improvement in net worth for 2007-08 since Budget reflects a stronger than anticipated improvement in the net operating surplus of \$5.3 billion. The net worth position for 2007-08 also includes an opening balance adjustment of \$8.3 billion due to a change in accounting for education expenses (see Box 2 in Attachment E for additional information). Historical net worth has also been revised, showing that net worth has been positive since 2006-07. Previously, net worth was projected to become positive in 2008-09.

**Table 14: Australian Government general government sector net worth, net debt and net interest payments**

	Estimates			
	2007-08		2008-09	
	Budget	MYEFO	Budget	MYEFO
Financial assets (\$b)	166.6	175.8	184.9	195.9
Non-financial assets (\$b)	49.1	49.7	50.6	51.4
<b>Total assets (\$b)</b>	<b>215.7</b>	<b>225.5</b>	<b>235.5</b>	<b>247.2</b>
<b>Total liabilities (\$b)</b>	<b>216.3</b>	<b>208.3</b>	<b>221.4</b>	<b>213.1</b>
<b>Net worth (\$b)</b>	<b>-0.6</b>	<b>17.2</b>	<b>14.1</b>	<b>34.1</b>
<b>Net debt (\$b)(a)(b)</b>	<b>-12.0</b>	<b>-16.1</b>	<b>-28.4</b>	<b>-34.5</b>
Per cent of GDP	-1.1	-1.4	-2.5	-2.9
<b>Net interest payments (\$b)</b>	<b>-0.4</b>	<b>-0.8</b>	<b>-0.2</b>	<b>-0.6</b>
Per cent of GDP	0.0	-0.1	0.0	0.0
	Projections			
	2009-10		2010-11	
	Budget	MYEFO	Budget	MYEFO
Financial assets (\$b)	202.8	217.6	214.0	231.6
Non-financial assets (\$b)	51.5	52.4	52.6	53.4
<b>Total assets (\$b)</b>	<b>254.3</b>	<b>270.0</b>	<b>266.5</b>	<b>285.1</b>
<b>Total liabilities (\$b)</b>	<b>225.2</b>	<b>216.5</b>	<b>222.4</b>	<b>213.3</b>
<b>Net worth (\$b)</b>	<b>29.1</b>	<b>53.5</b>	<b>44.1</b>	<b>71.7</b>
<b>Net debt (\$b)(a)(b)</b>	<b>-43.9</b>	<b>-53.5</b>	<b>-59.2</b>	<b>-71.1</b>
Per cent of GDP	-3.7	-4.3	-4.7	-5.5
<b>Net interest payments (\$b)</b>	<b>-1.2</b>	<b>-1.8</b>	<b>-1.1</b>	<b>-1.8</b>
Per cent of GDP	-0.1	-0.1	-0.1	-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 sale of the Government's holding in Telstra. The net debt estimates in 2007-08 assumes that the Future Fund will increasingly be invested in equities, which are not included in the calculation of net debt.