

PART 1: AUSTRALIAN GOVERNMENT BUDGET OUTCOME

OVERVIEW

In 2008-09, the Australian Government general government sector recorded an underlying cash deficit of \$27.1 billion (2.3 per cent of gross domestic product (GDP)). The fiscal balance was in deficit by \$29.7 billion (2.5 per cent of GDP).

Table 1: Australian Government general government sector budget aggregates

	2007-08 Outcome	2008-09 Estimate at 2009-10 Budget	2008-09 Outcome
Revenue (\$b)	303.7	295.9	298.9
Per cent of GDP	26.8	24.7	24.9
Expenses (\$b)	280.1	324.4	324.6
Per cent of GDP	24.8	27.1	27.0
Net operating balance (\$b)	23.6	-28.5	-25.6
Net capital investment (\$b)	2.6	4.3	4.1
Fiscal balance (\$b)	21.0	-32.9	-29.7
Per cent of GDP	1.9	-2.7	-2.5
Underlying cash balance (\$b)(a)	19.7	-32.1	-27.1
Per cent of GDP	1.7	-2.7	-2.3
<i>Memorandum item:</i>			
Headline cash balance (\$b)	28.2	-35.9	-31.3

(a) Excludes Future Fund earnings.

In cash terms, the outcome was \$5.0 billion better than estimated at the time of the 2009-10 Budget, with total cash receipts \$2.8 billion higher than expected and total cash payments¹ \$2.2 billion lower than expected.

At the end of 2008-09, the level of Australian Government net debt was -\$16.1 billion (1.3 per cent of GDP) which was \$11.5 billion better than expected at the time of the 2009-10 Budget. Australian Government general government sector net financial worth was -\$73.8 billion at the end of 2008-09. Net worth was \$19.7 billion at the end of 2008-09.

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

REVENUE

Total accrual revenue was \$298.9 billion in 2008-09, which is \$3.0 billion above the estimate in the 2009-10 Budget. This reflected higher than expected taxation revenue of \$2.9 billion and higher non-taxation revenues of \$92 million.

Company tax, other individuals income tax and petroleum resource rent tax (PRRT) were the main contributors to the higher than expected taxation revenue outcome, with partial offsets from weaker income tax withholding and GST.

Company taxation revenue was \$2.8 billion (4.8 per cent) above the estimate in the 2009-10 Budget. This primarily reflected stronger than expected taxable income from some companies in the mining industry and some financial institutions (where gains on currency swap transactions are likely to have contributed to higher taxable income) and a large one off tax payment made to correct a previous underpayment.

PRRT revenue was \$499 million (31.2 per cent) higher than estimated reflecting higher than assumed oil prices and lower than expected tax refund liabilities.

While total individuals and other withholding tax revenue was only \$87 million above the 2009-10 Budget estimate, this result incorporated significant offsetting effects. Revenue from other individuals income tax was \$1.0 billion (3.4 per cent) higher than estimated but this was almost fully offset by lower income tax withholding of \$594 million (0.5 per cent) and higher individuals refunds of \$369 million (1.6 per cent).

Higher other individuals income tax reflected stronger than expected collections relating to 2007-08 income year tax assessments (in part owing to stronger than anticipated capital gains outcomes), as well as some significant compliance assessments. Income tax withholding was lower than anticipated because of weaker wage and salary incomes, particularly owing to a reduction in average hours worked. The higher individuals refunds resulted from a greater than expected bring forward in tax return lodgements into 2008-09 (primarily from 2009-10) in response to the introduction of the Tax Bonus Payment.

GST revenue was \$504 million (1.2 per cent) lower than estimated in the 2009-10 Budget. This was mainly the result of lower than anticipated revenue from transactions related to previous financial years.

Excise and customs duty taxation revenue was \$365 million lower than estimated, largely owing to weakness across a range of import categories and lower than expected petrol excise.

The major upward variations in non-taxation revenue since the 2009-10 Budget estimates include:

- higher than anticipated dividends of \$280 million earned mainly by the Future Fund; and
- the recovery of \$146 million in overpayments of income support benefits.

This was partially offset by lower than expected interest revenue of \$193 million from the Future Fund as a result of fluctuations in the funds invested and interest rate movements and earnings.

Table 2: Australian Government general government sector revenue

	2008-09 Estimate at 2009-10 Budget \$m	2008-09 Outcome \$m	Change on 2009-10 Budget \$m
Individuals and other withholding taxes			
Gross income tax withholding	117,680	117,086	-594
Gross other individuals	31,210	32,260	1,050
less: Refunds	23,200	23,569	369
Total individuals and other withholding taxation	125,690	125,777	87
Fringe benefits tax	3,470	3,581	111
Superannuation funds	9,160	9,227	67
Company tax	57,950	60,705	2,755
Petroleum resource rent tax	1,600	2,099	499
Income taxation revenue	197,870	201,389	3,519
Sales taxes			
Goods and services tax	43,130	42,626	-504
Wine equalisation tax	700	707	7
Luxury car tax	390	384	-6
Other sales taxes	0	-1	-1
Total sales taxes	44,220	43,716	-504
Excise duty			
Petrol	6,610	6,461	-149
Diesel	6,660	6,687	27
Beer	2,010	1,974	-36
Tobacco	5,620	5,654	34
Other excisable products	3,620	3,543	-77
Of which: Other excisable beverages(a)	870	862	-8
Total excise duty revenue	24,520	24,319	-201
Customs duty			
Textiles, clothing and footwear	1,140	1,120	-20
Passenger motor vehicles	1,180	1,135	-45
Excise-like goods	2,760	2,775	15
Other imports	1,600	1,517	-83
less: Refunds and drawbacks	240	272	32
Total customs duty revenue	6,440	6,276	-164
Other indirect taxation			
Agricultural levies	558	620	63
Other taxes	2,143	2,334	190
Total other indirect taxation revenue	2,701	2,954	253
Indirect taxation revenue	77,881	77,264	-616
Taxation revenue	275,751	278,653	2,903
Sales of goods and services	6,373	6,406	33
Dividends	3,194	3,474	280
Interest received	5,454	5,124	-330
Other non-taxation revenue	5,166	5,275	109
Non-taxation revenue(b)	20,188	20,280	92
Total revenue(b)	295,939	298,933	2,994
<i>Memorandum:</i>			
Medicare levy revenue	8,560	8,294	-266

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

(b) Includes Future Fund earnings.

EXPENSES

Total accrual expenses were \$324.6 billion in 2008-09, \$126 million higher than the estimate provided in the 2009-10 Budget. The major upward variations from the 2009-10 Budget estimates for 2008-09 include greater than expected:

- rental expenses of \$302 million including leases by the Department of Defence (Defence);
- superannuation interest expenses of \$283 million associated with adjustments for Defence's superannuation provisions; and
- expenses of \$254 million in Family Tax Benefits owing to a higher than expected number of recipients.

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

- expenses of \$415 million owing to New South Wales and Victoria choosing not to accept the Commonwealth's offer to cash out the Snowy-Hydro Ltd company tax compensation;
- expenses of \$186 million for remote indigenous housing, owing to implementation plans for the National Partnership Agreement being finalised in May 2009 with milestone payments becoming due in 2009-10;
- expenses of \$171 million by the Department of Environment, Water, Heritage and the Arts primarily owing to lower than projected uptake of infrastructure projects; and
- expenses of \$138 million for the Newstart Allowance, reflecting lower than expected recipient numbers partly offset by higher than estimated average payment rates.

Estimated expenses for 2008-09 in the 2009-10 Budget also included a provision for an underspend in the contingency reserve.

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

	2008-09 Estimate at 2009-10 Budget \$m	2008-09 Outcome \$m
General public services		
Legislative and executive affairs	819	728
Financial and fiscal affairs	5,946	6,331
Foreign affairs and economic aid	4,972	4,763
General research	2,722	2,237
General services	761	995
Government superannuation benefits	2,689	2,142
Defence	18,745	19,190
Public order and safety	3,687	3,558
Education(a)	21,502	22,601
Health	49,373	49,146
Social security and welfare(a)	124,915	124,581
Housing and community amenities	4,410	5,080
Recreation and culture	2,997	3,107
Fuel and energy	6,280	5,806
Agriculture, forestry and fishing	3,267	2,723
Mining, manufacturing and construction	1,921	1,911
Transport and communication	6,989	6,941
Other economic affairs		
Tourism and area promotion	195	192
Total labour and employment affairs	5,463	5,040
Other economic affairs nec	1,380	1,275
Other purposes		
Public debt interest	3,938	3,946
Nominal superannuation interest	6,432	6,715
General purpose inter-governmental transactions	45,433	45,248
Natural disaster relief	398	312
Contingency reserve	-793	0
Total expenses	324,443	324,569

(a) Includes a number of reallocations between functions since 2009-10 Budget.

NET CAPITAL INVESTMENT

Total net capital investment for 2008-09 was \$4.1 billion, which is \$283 million lower than estimated in the 2009-10 Budget.

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

	2008-09 Estimate at 2009-10 Budget \$m	2008-09 Outcome \$m
General public services	-16	223
Defence	2,759	3,028
Public order and safety	347	109
Education	19	5
Health	389	73
Social security and welfare	79	52
Housing and community amenities	-66	-36
Recreation and culture	183	27
Fuel and energy	14	11
Agriculture, forestry and fishing	583	443
Mining, manufacturing and construction	13	-2
Transport and communications	22	13
Other economic affairs	63	114
Other purposes	-42	4
Total net capital investment	4,347	4,064

CASH FLOWS

The 2008-09 underlying cash deficit was \$27.1 billion, \$5.0 billion smaller than estimated at the 2009-10 Budget. The smaller than anticipated outcome was the result of higher cash receipts of \$2.8 billion and lower cash payments² of \$2.2 billion.

Total cash receipts were \$292.6 billion in 2008-09, around \$2.8 billion higher than the estimate in the 2009-10 Budget. This reflected higher than estimated taxation receipts of \$3.3 billion, partly offset by lower than estimated non-taxation receipts of \$434 million.

The higher tax receipts were essentially the result of higher than expected company income tax collections of \$3.6 billion, partly offset by lower than expected tax collections from total individuals and other withholding taxes of \$549 million.

Tax receipts outcomes for PRRT, GST, excise and the other smaller revenue heads were broadly in line with the estimates in the 2009-10 Budget.

Total taxation receipts were \$3.3 billion higher than the estimate in the 2009-10 Budget while total accrual taxation revenue was \$2.9 billion higher than the estimate in the 2009-10 Budget. The difference between the cash and accrual results were primarily the result of GST receipts remaining broadly in line with the Budget estimate, compared with a \$504 million decrease for its accrual equivalent, as the lower than anticipated

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

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revenue from transactions related to previous financial years did not affect cash receipts in 2008-09. This effect was partially offset by the accrual revenue increase in other individuals income owing to higher compliance assessments that have not yet had time to translate into cash receipts.

Total cash payments (including finance leases) were \$316.0 billion in 2008-09, \$2.2 billion lower than estimated at the 2009-10 Budget.³

The difference between the lower than expected cash payments of \$2.2 billion and the lower than expected net outcome for expenses and net capital investment of \$157 million primarily reflects increases in expenses that did not impact on cash payments.

The key drivers include:

- grant payments to State and Territory governments of \$523 million that were expensed in 2008-09 but paid in 2009-10, including revenue assistance to the states and territories (\$126 million), school education (\$85 million) and rural assistance (\$34 million);
- payments to local government of \$480 million which were paid and expensed in 2008-09, while only the cash payment was included in the 2009-10 Budget;
- greater than expected superannuation interest expenses of \$283 million associated with adjustments for the Defence's superannuation provisions; and
- service and interest costs on the University superannuation provision of \$213 million.

³ 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

	2008-09 Estimate at 2009-10 Budget \$m	2008-09 Outcome \$m	Change on 2009-10 Budget \$m
Individuals and other withholding taxes			
Gross income tax withholding	116,400	115,899	-501
Gross other individuals	29,710	30,030	320
less: Refunds	23,200	23,569	369
Total individuals and other withholding taxation	122,910	122,361	-549
Fringe benefits tax	3,400	3,399	-1
Superannuation funds	9,140	9,217	77
Company tax	56,800	60,391	3,591
Petroleum resource rent tax	2,200	2,184	-16
Income taxation receipts	194,450	197,552	3,102
Sales taxes			
Goods and services tax	41,258	41,335	78
Wine equalisation tax	690	693	3
Luxury car tax	390	393	3
Other sales taxes	0	-1	-1
Total sales taxes	42,338	42,420	83
Excise duty			
Petrol	6,510	6,481	-29
Diesel	6,660	6,708	48
Beer	2,010	1,980	-30
Tobacco	5,620	5,654	34
Other excisable products	3,610	3,551	-59
Of which: Other excisable beverages(a)	870	864	-6
Total excise duty receipts	24,410	24,373	-37
Customs duty			
Textiles, clothing and footwear	1,140	1,116	-24
Passenger motor vehicles	780	790	10
Excise-like goods	2,760	2,775	15
Other imports	1,590	1,516	-74
less: Refunds and drawbacks	380	383	3
Total customs duty receipts	5,890	5,814	-76
Other indirect taxation			
Agricultural levies	558	620	63
Other taxes	1,732	1,848	116
Total other indirect taxation receipts	2,290	2,468	178
Indirect taxation receipts	74,927	75,075	148
Taxation receipts	269,377	272,627	3,250
Sales of goods and services	6,356	6,110	-246
Dividends	3,152	3,398	246
Interest received	5,014	5,166	152
Other non-taxation receipts	5,883	5,298	-585
Non-taxation receipts(b)	20,406	19,973	-434
Total receipts(b)	289,784	292,600	2,816
<i>Memorandum:</i>			
Medicare levy receipts	8,560	8,294	-266

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

(b) Includes Future Fund earnings.

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

	2008-09 Estimate at 2009-10 Budget \$b	2008-09 Outcome \$b
Cash receipts		
Operating cash receipts excluding Future Fund earnings	285.6	288.6
Future Fund earnings	3.6	3.6
<i>Total operating receipts</i>	289.2	292.3
Capital cash receipts(a)	0.6	0.3
Total cash receipts	289.8	292.6
Cash payments		
Operating cash payments	308.3	306.3
Capital cash payments(b)	9.5	9.2
Total cash payments	317.8	315.5
Finance leases and similar arrangements(c)	0.5	0.6
GFS cash surplus(+)/deficit(-)	-28.5	-23.4
Per cent of GDP	-2.4	-2.0
<i>less</i> Future Fund earnings	3.6	3.6
Underlying cash balance(d)	-32.1	-27.1
Per cent of GDP	-2.7	-2.3
<i>Memorandum items:</i>		
Net cash flows from investments in financial assets for policy purposes	-7.4	-7.9
<i>plus</i> Future Fund earnings	3.6	3.6
Headline cash balance	-35.9	-31.3

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

(b) Equivalent to cash payments for purchases of 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 DEBT, NET FINANCIAL WORTH AND NET WORTH

At the end of 2008-09, the level of Australian Government net debt was -\$16.1 billion (1.3 per cent of GDP) which was \$11.5 billion better than expected at the time of the 2009-10 Budget. This reflects the larger than expected value of investments held by the Government and the better than anticipated underlying cash outcome resulting in lower than expected issuance of government securities.

Net financial worth decreased from -\$17.8 billion in 2007-08 to -\$73.8 billion at the end of 2008-09. This decrease was \$8.5 billion less than estimated at the 2009-10 Budget. The change since the Budget largely reflects an increase in the value of the Government's investments, including in the Reserve Bank of Australia, which was partially offset by an increase in the superannuation liability owing to a difference in the estimated and actual discount rate at 30 June.

Net worth decreased from \$71.2 billion in 2007-08 to \$19.7 billion at the end of 2008-09. This decrease was \$9.0 billion less than estimated at the 2009-10 Budget. In addition to the changes in net financial worth since Budget outlined above, the change in net worth since Budget also reflects the higher than expected value of the Government's land and buildings.

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

	2008-09 Estimate at 2009-10 Budget \$b	2008-09 Outcome \$b
Financial assets	200.6	214.6
Non-financial assets	93.1	93.5
Total assets	293.7	308.2
Total liabilities	283.0	288.4
Net worth	10.8	19.7
Net financial worth(a)	-82.3	-73.8
Per cent of GDP	-6.9	-6.1
Net debt(b)	-4.7	-16.1
Per cent of GDP	-0.4	-1.3
Net interest payments	-0.9	-1.2
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.

