

PART 3: FISCAL STRATEGY AND OUTLOOK

OVERVIEW

The fiscal outlook for 2009-10 remains broadly unchanged from Budget. The stronger economic outlook has increased estimated tax receipts which, under the Government's fiscal strategy, will deliver lower deficits and debt across the forward estimates.

Net debt is now expected to peak around \$50 billion lower than was projected at Budget.

Even with this improvement, taxation receipt estimates over the period 2008-09 to 2012-13 remain around \$170 billion lower than in the 2008-09 Budget.

The usual lag between economic conditions and tax collections means that it will take some time for the benefits of stronger economic growth to be fully reflected in the budget position, and the fiscal situation will remain challenging in the near term.

The Government's fiscal strategy was outlined in the February 2009 *Updated Economic and Fiscal Outlook* and in the 2009-10 Budget.

As part of this strategy, the Government provided support to cushion the economy from the effects of the global recession by delivering a comprehensive stimulus package to support jobs and growth and by allowing the natural variations in receipts and payments to impact on the budget balance.

As the economy recovers, the Government is committed to taking action to return the budget to surplus in a timely fashion. Consistent with its fiscal strategy, all new spending since the 2009-10 Budget has been fully offset across the forward estimates and improvements in expected tax receipts have been allowed to flow through to the budget bottom line.

The withdrawal of stimulus will see real spending fall in 2010-11 – the first fall in more than two decades. Consistent with the fiscal strategy, real growth in spending has been held to below 2 per cent from 2011-12, when the economy is expected to return to above trend growth.

The withdrawal of stimulus, restraint in spending growth and the natural recovery of tax receipts will see a progressive tightening of the fiscal policy stance over the forward estimates. The budget deficit is projected to fall from 4.7 per cent of GDP in 2009-10 to 1.1 per cent of GDP in 2012-13.

The Government's fiscal strategy is projected to see the budget return to surplus by 2015-16. Net debt is expected to peak at 10 per cent of GDP (\$153.2 billion) in 2013-14 and fall to 2.2 per cent of GDP (\$45.4 billion) by 2019-20.

THE GOVERNMENT'S MEDIUM-TERM FISCAL STRATEGY

The Government's fiscal strategy aims to ensure fiscal sustainability over the medium term. This provides the necessary flexibility for the budget balance to vary in line with economic conditions.

The key elements of the Government's medium-term fiscal strategy are:

- achieving budget surpluses, on average, over the medium term;
- keeping taxation as a share of GDP on average below the level for 2007-08; and
- improving the Government's net financial worth over the medium term.

The global recession presented an extraordinary threat to Australia's economic growth prospects. It had the potential not only to reduce the incomes of Australian businesses and households in the near term, but also to damage Australia's medium-term economic prospects through the erosion of skills and capital that arise from higher unemployment and lower investment.

It was necessary for the Government to take timely and substantial action to cushion the economy from the worst effects of the global recession.

To ensure that growth was supported in a manner consistent with the medium-term fiscal strategy, the Government committed in the February 2009 *Updated Economic and Fiscal Outlook* to a two-stage fiscal strategy:

1. Support the economy during the global recession

During the economic slowdown, the Government will continue to support the economy and jobs by:

- allowing the variations in receipts and payments, which are naturally associated with slower economic growth, to drive a temporary underlying cash budget deficit; and
- using additional spending to deliver timely, targeted and temporary stimulus, with the clear objective of meeting other budget priorities and new policy proposals through a reprioritisation of existing policies.

2. Deficit exit strategy as the economy recovers

As the economy recovers, and grows above trend, the Government will take action to return the budget to surplus by:

- allowing the level of tax receipts to recover naturally as the economy improves, while maintaining the Government's commitment to keep taxation as a share of GDP below the 2007-08 level on average; and
- restraining real growth in spending to 2 per cent a year until the budget returns to surplus.

Delivering on the fiscal strategy

The Government is meeting its two-stage fiscal strategy of supporting growth during the downturn and returning the budget to surplus once the economy recovers.

Supporting the economy during the global recession

A key element in the Government's medium-term strategy is that the budget balance should be allowed to vary in the short term with economic conditions. Allowing the 'automatic stabilisers' to operate has played an important role in stabilising the economy.

Attempting to hold the budget in surplus during this period of economic difficulty – by reducing expenditure or increasing taxation – would have led to a deeper and more protracted downturn. This would have further compounded the macroeconomic instability arising out of the global recession.

Complementing the operation of the 'automatic stabilisers,' discretionary policy measures were implemented quickly by the Government and the Reserve Bank as the severity of the global recession became clear.

Early and decisive fiscal stimulus was essential to support economic activity and jobs. The Government's fiscal stimulus program started with income support, before moving into 'shovel-ready' infrastructure and longer-term nation building projects. This provided critical support to the economy when it was needed most.

The Government's economic stimulus was timely, temporary and targeted.

- The Government responded quickly and decisively to the deterioration in the global outlook, implementing stimulus measures from October 2008. Timely action allowed the stimulus to support the economy when it was needed most.
- The stimulus measures were designed to ensure that they did not lock in higher baseline government spending; their temporary nature ensured that they did not

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affect the sustainability of the budget and that they would be withdrawn as the economy recovered.

- The stimulus measures were also carefully targeted to ensure their effectiveness in boosting demand, in turn supporting jobs and economic activity. The large capital component of the stimulus addressed long-term needs for economic and social infrastructure.

With a near-term global recovery not assured, and the economy still expected to be operating below capacity for some time, fiscal stimulus will continue to play a vital role in supporting domestic economic activity, especially through the remainder of 2009.

By design, the stimulus will be withdrawn in line with the gathering pace of the private sector recovery expected through 2010. The staged withdrawal of stimulus will avoid sudden changes in the profile of government spending that could threaten growth and confidence.

Adjustments to the fiscal stimulus

The economic stimulus was designed to be progressively withdrawn from the economy as private demand recovers. The peak impact of the stimulus on growth was in the June quarter 2009.

The Government has kept the stimulus under constant review to ensure that the right amount of support is being provided to the economy and that individual programs deliver the desired outcomes.

The Government has made some adjustments to aspects of the stimulus to allow flexibility in managing the demand for individual programs, to adapt to evolving labour market conditions, provide value for money and ensure that an appropriate level of support is provided to the economy. The rate of overall stimulus withdrawal remains appropriate to the current economic circumstances.

In August 2009, the Government announced that:

- an additional \$1.5 billion had been redirected to the Primary Schools for the 21st Century component of the Building the Education Revolution (BER) program, reflecting a stronger than expected take-up of funding under that program; and
- the funding for this change comes from reduced funding for social housing under the Nation Building and Jobs Plan as a result of lower than expected costs, the closure of the Low Emission Assistance Plan for Renters component of the Energy Efficient Homes package following lower than expected demand, and redirection of funding from elsewhere within the BER where program objectives will be met at a lower cost.

In October 2009, the Government announced that it will allocate funding from the Get Communities Working and Local Jobs streams of the Jobs Fund to the Apprentice Kickstart Bonus and Increased Pre-Apprenticeship Training Places (up to \$100 million over two years) and Job Expos for Priority Regions (\$4.1 million in 2009-10) as part of the Keep Australia Working initiative. These programs will provide support for apprentices and job-seekers in preparation for the economic recovery.

In addition to these changes, the Government has decided to modify the Home Insulation Program (HIP) component of the Energy Efficient Homes package such that:

- funding for the HIP is capped at \$2.45 billion and the maximum rebate is reduced from \$1,600 to \$1,200, generating a saving of \$250 million over the forward estimates; and
- \$986 million of HIP funding will be brought forward to 2009-10 from future years to meet increased demand for the HIP.

There will also be minor recalibrations of the funding for the BER program, Clean Energy Initiative and Education Investment Fund to provide flexibility around payment milestones and the achievement of value for money outcomes. These changes will not affect the total amount of funding provided for these programs.

Further information on these changes may be found at Appendix A.

The recalibration of stimulus measures will complement the withdrawal of stimulus already built into the design of the fiscal strategy. A more drastic or immediate withdrawal of the stimulus is not appropriate. Businesses' hiring and investment decisions have been predicated on the announced stimulus and a sharp withdrawal would jeopardise the pace of economic recovery.

The Government will continue to monitor the economic recovery and make any further adjustments that are necessary to ensure the stimulus suit future economic conditions

Deficit exit strategy

As the economy recovers, the Government is committed to returning the budget to surplus. The deficit exit strategy requires that the natural recovery in tax receipts be allowed to improve the budget position and that real spending growth be restrained to 2 per cent a year once the economy is growing above trend until the budget is returned to surplus.

The Government has demonstrated its commitment to the discipline required by the fiscal strategy:

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- The Government has more than offset all new spending decisions taken since the 2009-10 Budget across the forward estimates by finding savings in other parts of the budget (see Table 3.1).
- The Government has restrained real spending growth to below 2 per cent in those years where the economy is projected to grow at above-trend rates.
- The Government will continue to demonstrate fiscal discipline by 'banking' upward revisions to tax receipts. This commitment has improved the forecasts and projections of the budget position over the forward estimates.

In addition, the gradual planned withdrawal of stimulus spending will also contribute to a tightening of the fiscal stance as the economy recovers over the forward estimates. Real spending is expected to fall in 2010-11 for the first time in more than two decades.

The table below shows the net effect of policy decisions taken since the 2009-10 Budget. In assessing performance against the fiscal strategy, the total effect of policy decisions is adjusted to account for amounts that have previously been provided for in the contingency reserve and to exclude savings that were notionally allocated to offset increased funding for the Primary Schools for the 21st Century (P21) component of the Building the Education Revolution (BER) program in August 2009.

Table 3.1: Delivering our fiscal strategy — underlying cash balance estimates

	Estimates		Projections		Total
	2009-10 \$m	2010-11 \$m	2011-12 \$m	2012-13 \$m	
Effect of policy decisions since 2009-10 Budget					
Spends	-1,338	260	-603	-150	-1,831
Saves(a)	822	1,327	970	406	3,525
Total effect of policy decisions since 2009-10 Budget(b)	-516	1,587	367	256	1,694
Add Contingency Reserve offsets to policy decisions	97	187	40	21	346
Less Building the Education Revolution offset measures	460	750	150	0	1,360
Net budget impact	-879	1,024	258	277	680

(a) This includes \$1.4 billion in savings measures from within the Nation Building and Jobs Plan — a reduced investment in social housing and the closure of the Low Emission Assistance Plan for Renters — which were notionally allocated as offsets for the additional cost of the Primary Schools for the 21st Century component of the Building the Education Revolution program.

(b) Excludes secondary impacts on public debt interest of policy decisions.

In the 2009-10 Budget, provision was made for a number of programs that were reasonably expected to affect the forward estimates. For example, a provision of \$130 million was put aside for transitional assistance for entities adversely affected by the transition from the New South Wales Greenhouse Gas Abatement Scheme to the Carbon Pollution Reduction Scheme. In assessing performance against the fiscal target,

the total effect of policy decisions on the Budget should be adjusted for contingency reserve offsets.

The effect of policy decisions since Budget does not include the \$1.5 billion additional funding allocated to the P21 component of the BER program. The \$1.5 billion increase reflects a strong take-up of funding under that program, which is reflected as an estimates variation rather than a spending decision.

At the time the additional funding for the P21 component of the BER program was announced, the Government also announced that the increase would be offset by reductions in other elements of the Nation Building and Jobs Plan. Accordingly, in assessing performance against the fiscal target, the total effect of policy decisions on the Budget should be adjusted to exclude the savings that were notionally allocated to offset this estimates variation.

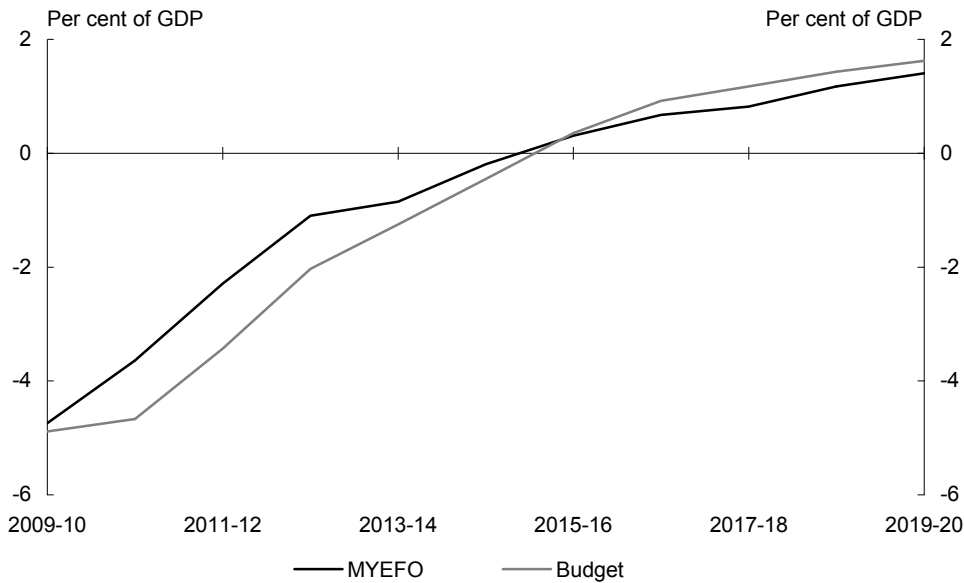
The offsetting savings for the additional P21 funding comprises \$750 million from a reduction in the funding allocated for social housing and \$610 million from the closure of the Low Emission Assistance Plan for Renters, which are included in the effect of policy decisions. In addition, there was a reallocation of \$178 million from the Science and Language Centres component of the BER and \$6 million from the Defence Housing allocation, which are both estimates variations.

Medium term

Improvements to the economic outlook are reflected in smaller projected budget deficits over the forward estimates from 2010-11. On current projections, the budget is expected to return to surplus in 2015-16, as was the expectation in the 2009-10 Budget (Chart 3.1).

In the medium term, the economy returns to a broadly similar growth path to that expected at Budget, and the projected underlying cash balances in each year also are broadly similar.

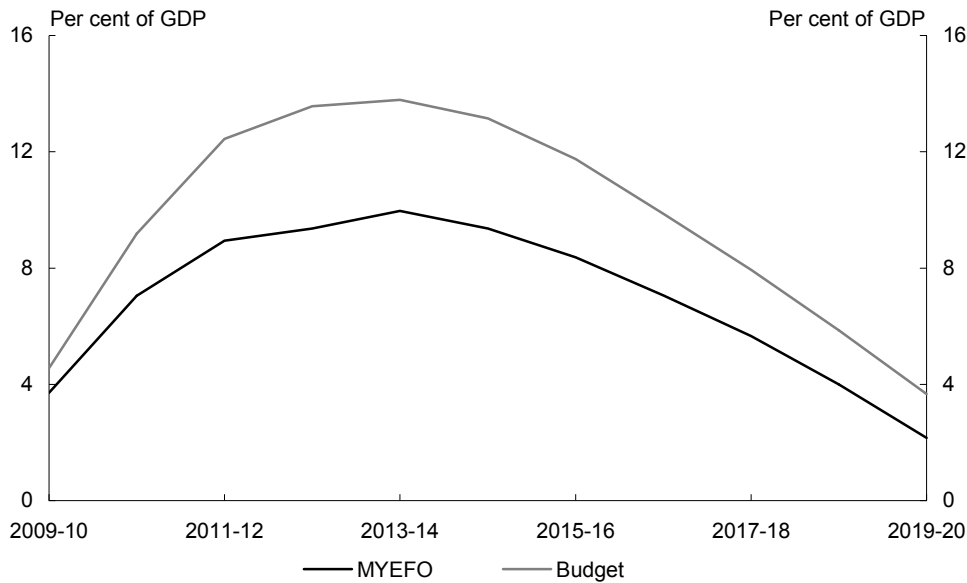
Chart 3.1: Underlying cash balances projected to 2019-20



The improvements to the budget position over the forward estimates are evident in a lower projected path for net debt (Chart 3.2). At Budget, net debt was projected to peak at 13.8 per cent of GDP (\$203.1 billion) in 2013-14 and fall to 3.7 per cent of GDP (\$75 billion) in 2019-20. Net debt is now projected to peak at 10.0 per cent of GDP (\$153.2 billion) in 2013-14, around \$50 billion lower than was projected at Budget, before falling to 2.2 per cent of GDP (\$45.4 billion) in 2019-20. Based on current projections, net debt will reach zero in 2021-22.

Government securities on issue are now expected to peak as a share of GDP at 18 per cent (\$245.8 billion) in 2011-12. In dollar terms, government securities on issue are projected to peak at \$270.4 billion in 2014-15. In each case, this is around \$50 billion lower than the expected peak at Budget.

The Australian Government's net debt remains low by international standards, with average net debt levels in the major advanced economies, measured for all levels of government, projected to increase to over 93 per cent of GDP by the end of 2014.

Chart 3.2: Government net debt projected to 2019-20

Variations in Carbon Pollution Reduction Scheme estimates since the 2009-10 Budget

The 2009-10 Budget reported on estimated Government revenue from the Carbon Pollution Reduction Scheme (CPRS) following the changes to the CPRS White Paper announced by the Prime Minister on 4 May 2009. Detailed information on the net fiscal impact of the scheme was also published on the Department of Climate Change website in May 2009. The 2009-10 MYEFO is the first update to those estimates.

In the Budget, the CPRS was expected to be broadly revenue neutral, delivering a net saving of \$208 million over the forward estimates (in fiscal balance terms). The scheme is now expected to impose a net fiscal cost of \$1.2 billion over the forward estimates. Over the period to 2019-20, the cumulative fiscal cost is around \$2.5 billion. The fiscal impacts remain consistent with the Government's commitment to use every cent it raises from the sale of pollution permits to help households and businesses adjust.

The increased net fiscal cost of the scheme is primarily attributable to reduced CPRS revenues, which in turn is due to:

- a lower assumed A\$ carbon price, reflecting a higher Australian dollar assumption in the MYEFO economic parameters (following an appreciation of the Australian dollar since Budget), as well as a higher terms of trade assumption over the medium term; and
- fewer permits available to be issued, reflecting changed emissions profiles in revised emissions data released in the *Tracking to Kyoto and 2020* report, released by the Department of Climate Change in August 2009.

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While world carbon prices have remained stable, the appreciation of the Australian dollar has resulted in the A\$ carbon price estimate for 2012-13 falling from A\$29 per tonne in the 2009-10 Budget to A\$26 per tonne. A lower A\$ carbon price assumption directly lowers the amount of revenue that is expected to be collected from the sale of CPRS permits.

CPRS permit prices are assumed to be set by world carbon prices adjusted for the exchange rate. This is because the CPRS allows unlimited imports of foreign carbon permits that meet minimum quality standards. The potential import of permits to meet a portion of any national emission target is expected to result in a close relationship between the A\$ price of Australian permits and world carbon prices.

Over the medium term, A\$ carbon prices are expected to reflect three broad assumptions: the movement in world real carbon prices, Australia's real exchange rate and Australian inflation. World real carbon prices are assumed to grow by 4 per cent per year which represents the rate of real increase in comparable financial assets. Australian inflation is assumed to be 2.5 per cent, reflecting the midpoint of the RBA's target inflation band. Movements in Australia's real exchange rate are assumed to reflect changes in Australia's terms of trade. The MYEFO forecasts a stronger near term outlook for the terms of trade. As a result, while the terms of trade is projected to decline over time to the same level projected at Budget, the higher starting point and the longer adjustment (now assumed to take 15 years rather than 10 years) results in a higher terms of trade and exchange rate assumption for the calculation of CPRS revenues to 2019-20.

The reduced carbon price directly flows through to the value of assistance provided through the provision of free permits (for example, assistance to emissions-intensive trade-exposed industries) but does not affect assistance paid directly as cash (for example, assistance through the Climate Change Action Fund). This means that discrete policy action must be taken if the scheme is to be fully calibrated to movements in the carbon price.

Revenue from the sale of permits has also been revised downwards for revised emissions data. The *Tracking to Kyoto and 2020* report projects stronger growth in uncovered sector emissions than at Budget. This means fewer permits can be issued under the CPRS to covered sectors within any given national emission allocation. Issuing fewer permits in covered sectors reduces revenue from the sale of permits.

These movements serve to highlight the sensitivity of estimates of the net fiscal cost of the CPRS to changes in assumptions about economic growth, growth in emissions in uncovered sectors, future exchange rates, and movements in Australia's terms of trade. The preparation of estimates for the period to 2019-20 introduces additional uncertainties, with components of the package significantly affected by the state of international climate change negotiations and scheme linkages, as well as changes in world carbon prices and the outcomes of scheme review processes. This underscores the need for caution in designing assistance measures, particularly those that lead to a permanent increase in scheme costs.

Table 3.2: Projected Budget impact of the Carbon Pollution Reduction Scheme

Fiscal Balance (\$m)	Total 5 years to											Total 12 years to	
	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20		2012-13
Revenue from sale of permits	0	0	4,450	11,480	12,070	12,650	13,360	13,990	14,640	15,290	15,990	15,930	113,920
Assistance measures													
Assistance for low- and middle-income households	0	0	-1,496	-5,063	-6,430	-6,560	-6,700	-6,880	-6,970	-7,100	-7,190	-6,559	-54,389
Fuel tax offsets	0	0	-1,010	-2,220	-2,550	-2,290	-2,350	-2,410	-2,460	-2,500	-2,530	-3,230	-20,320
Assistance to Emission Intensive Trade Exposed Industries	0	0	-1,200	-3,220	-3,510	-3,830	-4,210	-4,330	-4,640	-5,070	-5,530	-4,420	-35,540
Electricity Sector Adjustment Scheme	0	0	-260	-680	-730	-790	-850	0	0	0	0	-940	-3,310
Climate Change Action Fund(a)	-200	-300	-700	-600	-450	-348	-150	0	0	0	0	-1,803	-2,750
Transitional assistance for Greenhouse Gas Reduction Scheme	0	-130	0	0	0	0	0	0	0	0	0	-130	-130
Total assistance measures	-200	-430	-4,666	-11,783	-13,670	-13,818	-14,260	-13,620	-14,070	-14,670	-15,250	-17,082	-116,439
Net impact	-200	-430	-216	-303	-1,600	-1,168	-900	370	570	620	740	-1,152	-2,519
Cumulative impact(a)	-203	-633	-848	-1,152	-2,752	-3,919	-4,819	-4,449	-3,879	-3,259	-2,519	-1,152	-2,519

(a) Funding of \$2.5 million was provided for the Climate Change Action Fund in 2008-09. This funding is included in the totals and the cumulative impact of the scheme.

Notes:

Estimates beyond the forward estimates (beyond 2012-13) are subject to a number of significant uncertainties.

The estimates are not adjusted for the possible inclusion of agriculture in 2015.

The estimates are based on the Government's unconditional trajectory of 5 per cent below 2000 levels by 2020. Changes to the trajectory would affect both revenue and expenses.

The estimates do not include any adjustments for annual reviews of the adequacy of household assistance.

The estimates do not include spending on other related climate change programs, such as the Energy Efficient Homes program and the Clean Energy Initiative.

FISCAL OUTLOOK

The improved economic outlook since Budget has flowed through to a stronger projected budget position across the forward estimates from 2010-11. The economic recovery will take time to be reflected in the budget position given the usual lags between economic activity and revenue after a downturn.

The Australian Government's underlying cash deficit for 2009-10 is estimated to be \$57.7 billion (4.7 per cent of GDP). In accrual terms, a fiscal deficit of \$54.4 billion (4.5 per cent of GDP) is estimated for 2009-10.

Beyond 2009-10, there has been a significant reduction in the forecast deficits across the forward estimates. In total, the deficits are \$36.0 billion lower over the three years from 2010-11 to 2012-13 than forecast at Budget. This has reflected the increase in tax receipts flowing from the stronger outlook for the Australian economy which flow directly to the budget bottom line under the Government's fiscal strategy.

As a result, the forecast underlying cash deficit in 2012-13 has been reduced to 1.1 per cent of GDP, nearly halving since Budget.

Table 3.3: Australian Government general government sector budget aggregates^(a)

	Estimates			
	2009-10		2010-11	
	Budget	MYEFO	Budget	MYEFO
Revenue (\$b)	290.6	291.8	294.8	303.9
Per cent of GDP	24.7	24.0	24.1	23.7
Expenses (\$b)	338.2	340.2	344.5	345.0
Per cent of GDP	28.7	28.0	28.2	26.9
Net operating balance (\$b)	-47.6	-48.3	-49.7	-41.1
Net capital investment (\$b)	5.5	6.0	6.3	5.4
Fiscal balance (\$b)	-53.1	-54.4	-56.0	-46.5
Per cent of GDP	-4.5	-4.5	-4.6	-3.6
Underlying cash balance (\$b)(b)	-57.6	-57.7	-57.1	-46.6
Per cent of GDP	-4.9	-4.7	-4.7	-3.6
<i>Memorandum item:</i>				
Headline cash balance (\$b)	-59.8	-63.1	-58.9	-51.5
	Projections			
	2011-12		2012-13	
	Budget	MYEFO	Budget	MYEFO
Revenue (\$b)	320.8	335.9	349.7	364.9
Per cent of GDP	24.7	24.7	25.2	25.2
Expenses (\$b)	356.4	358.5	375.0	378.1
Per cent of GDP	27.4	26.3	27.0	26.1
Net operating balance (\$b)	-35.6	-22.6	-25.3	-13.2
Net capital investment (\$b)	6.1	5.6	5.0	4.7
Fiscal balance (\$b)	-41.8	-28.2	-30.3	-18.0
Per cent of GDP	-3.2	-2.1	-2.2	-1.2
Underlying cash balance (\$b)(b)	-44.5	-31.2	-28.2	-15.9
Per cent of GDP	-3.4	-2.3	-2.0	-1.1
<i>Memorandum item:</i>				
Headline cash balance (\$b)	-48.5	-33.3	-25.1	-12.0

(a) Budget estimates, including the per cent of GDP are as published in Budget Paper No. 1, *Budget Strategy and Outlook 2009-10*.

(b) Excludes expected Future Fund earnings.

Cash flows

In 2009-10, an underlying cash deficit of \$57.7 billion is expected (4.7 per cent of GDP), compared with the Budget estimate of \$57.6 billion (4.9 per cent of GDP).

Table 3.4 provides a summary of Australian Government general government sector cash flows.

Table 3.4: Summary of Australian Government general government sector cash flows

	Estimates			
	2009-10		2010-11	
	Budget	MYEFO	Budget	MYEFO
Cash receipts (\$b)				
Operating cash receipts				
excluding Future Fund earnings	278.4	280.4	285.1	294.1
Future Fund earnings	2.9	2.9	2.9	2.8
Total operating receipts	281.4	283.3	288.0	296.8
Capital cash receipts(a)	0.6	0.3	0.3	0.3
Total cash receipts	282.0	283.6	288.3	297.1
Cash payments (\$b)				
Operating cash payments	325.6	327.4	330.9	330.2
Capital cash payments(b)	11.0	11.0	11.5	10.7
Total cash payments	336.6	338.4	342.4	341.0
Finance leases and similar arrangements (\$b)(c)	0.0	0.0	0.0	0.0
GFS cash surplus(+)/deficit(-) (\$b)	-54.7	-54.8	-54.2	-43.9
Per cent of GDP	-4.6	-4.5	-4.4	-3.4
less Future Fund earnings (\$b)	2.9	2.9	2.9	2.8
Underlying cash balance (\$b)(d)	-57.6	-57.7	-57.1	-46.6
Per cent of GDP	-4.9	-4.7	-4.7	-3.6
<i>Memorandum items:</i>				
Net cash flows from investments in financial assets for policy purposes (\$b)	-5.1	-8.3	-4.8	-7.6
plus Future Fund earnings (\$b)	2.9	2.9	2.9	2.8
Headline cash balance (\$b)	-59.8	-63.1	-58.9	-51.5
	Projections			
	2011-12		2012-13	
	Budget	MYEFO	Budget	MYEFO
Cash receipts (\$b)				
Operating cash receipts				
excluding Future Fund earnings	307.3	321.6	337.2	352.2
Future Fund earnings	2.8	2.8	2.8	2.8
Total operating receipts	310.1	324.4	339.9	355.0
Capital cash receipts(a)	0.2	0.3	0.2	0.2
Total cash receipts	310.2	324.7	340.1	355.2
Cash payments (\$b)				
Operating cash payments	340.8	342.4	355.6	358.7
Capital cash payments(b)	11.1	10.6	9.9	9.6
Total cash payments	352.0	353.0	365.5	368.3
Finance leases and similar arrangements (\$b)(c)	0.0	0.0	0.0	0.0
GFS cash surplus(+)/deficit(-) (\$b)	-41.8	-28.4	-25.4	-13.1
Per cent of GDP	-3.2	-2.1	-1.8	-0.9
less Future Fund earnings (\$b)	2.8	2.8	2.8	2.8
Underlying cash balance (\$b)(d)	-44.5	-31.2	-28.2	-15.9
Per cent of GDP	-3.4	-2.3	-2.0	-1.1
<i>Memorandum items:</i>				
Net cash flows from investments in financial assets for policy purposes (\$b)	-6.8	-4.9	0.3	1.1
plus Future Fund earnings (\$b)	2.8	2.8	2.8	2.8
Headline cash balance (\$b)	-48.5	-33.3	-25.1	-12.0

- (a) Equivalent to cash receipts from the sale of non-financial assets in the cash flow statement.
 (b) Equivalent to cash payments for purchases of non-financial assets in the cash flow statement.
 (c) The acquisition of assets under finance leases decreases the underlying cash balance. The disposal of assets previously held under finance leases increases the underlying cash balance.
 (d) Excludes expected Future Fund earnings.

Variations to the underlying cash balance estimates

The 2009-10 underlying cash deficit is higher than estimated at the 2009-10 Budget by \$93 million. This revision reflects an increase of \$1.7 billion in cash receipts (excluding Future Fund earnings) offset by an increase in cash payments of \$1.7 billion.

Table 3.5 provides a reconciliation of the variations in the underlying cash balance estimates.

Table 3.5: Reconciliation of general government underlying cash balance estimates

	Estimates		Projections	
	2009-10 \$m	2010-11 \$m	2011-12 \$m	2012-13 \$m
2009-10 Budget underlying cash balance(a)	-57,593	-57,051	-44,535	-28,150
Per cent of GDP	-4.9	-4.7	-3.4	-2.0
Changes from 2009-10 Budget to MYEFO				
Effect of policy decisions(b)	-516	1,587	367	256
Effect of parameter and other variations	423	8,842	13,001	11,993
Total variations	-93	10,429	13,368	12,249
2009-10 MYEFO underlying cash balance(a)	-57,685	-46,622	-31,167	-15,901
Per cent of GDP	-4.7	-3.6	-2.3	-1.1

(a) Excludes expected Future Fund earnings.

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

Total policy decisions since the 2009-10 Budget have increased the underlying cash deficit by \$516 million in 2009-10 but decreased the cash deficit by \$1.7 billion over the four years to 2012-13 (see Table 3.5).

Major policy decisions affecting the 2009-10 forecasts include additional spending on the Solar Homes and Communities Plan, savings from the closure of the Low Emission Assistance Plan for Renters and modification of the Home Insulation Program, savings from a reduction in the funding for additional public and community housing dwellings under the Nation Building and Jobs Plan and a bring-forward of the funding in relation to the Water for the Future – Restoring the Balance in the Murray Darling Basin program.

Additional spending in 2009-10 will contribute to aggregate demand at a time when the economy is operating well below capacity. Policy decisions in subsequent years have the effect of subtracting from aggregate demand.

Total parameter and other variations since the 2009-10 Budget have reduced the underlying cash deficit by \$423 million in 2009-10 (see Table 3.5).

Further details of policy and other spending variations are provided in the following section on the fiscal balance.

Part 3: Fiscal strategy and outlook

Total receipts have been revised upwards across the forward estimates period by a total of \$40 billion. The improved economic outlook, with a smaller than previously anticipated downturn and earlier recovery, is reflected in significant upward revisions to receipts in the latter years of the forward estimates period. However, the impact in the short term, especially 2009-10, is expected to be muted, reflecting lags between economy activity and when tax is paid.

The 2009-10 Budget flagged that as the economy begins to recover there was likely to be a continued period of subdued tax growth as the stock of prior year losses (for companies and capital gains tax) is run down. The transmission of the improved economic outlook into higher receipts now appears to be delayed further than anticipated at Budget, with September quarter 2009 company and superannuation collections having been lower than Budget expectations. Although the *Final Budget Outcome 2008-09* showed receipts coming in \$2.8 billion higher than anticipated, this was largely the result of one-off factors lifting company tax receipts.

There has been substantial volatility in tax collections as they have weakened in the past year, particularly for company and superannuation fund taxes, and the causes of this will be better understood once the relevant tax returns are lodged later in 2009-10.

However, a main contributor to those weak collections and the delay in tax receipts recovering may be a stronger and earlier than expected flow-through of accumulated losses. These losses are likely to encompass falls in the value of assets (for example, through falls in market prices and write-off of debts) and operating losses of businesses. In addition, the company and superannuation fund tax instalment system is likely to be suppressing near term taxes more than anticipated. In periods of significantly changing profitability the lag in this system between company profits and tax collections means that taxes recover after the economy (further information is in Box 1). Furthermore, interpreting the relationship between the economy and tax collections through 2009 has been more challenging because of some apparently large discrepancies emerging between different measures of GDP.

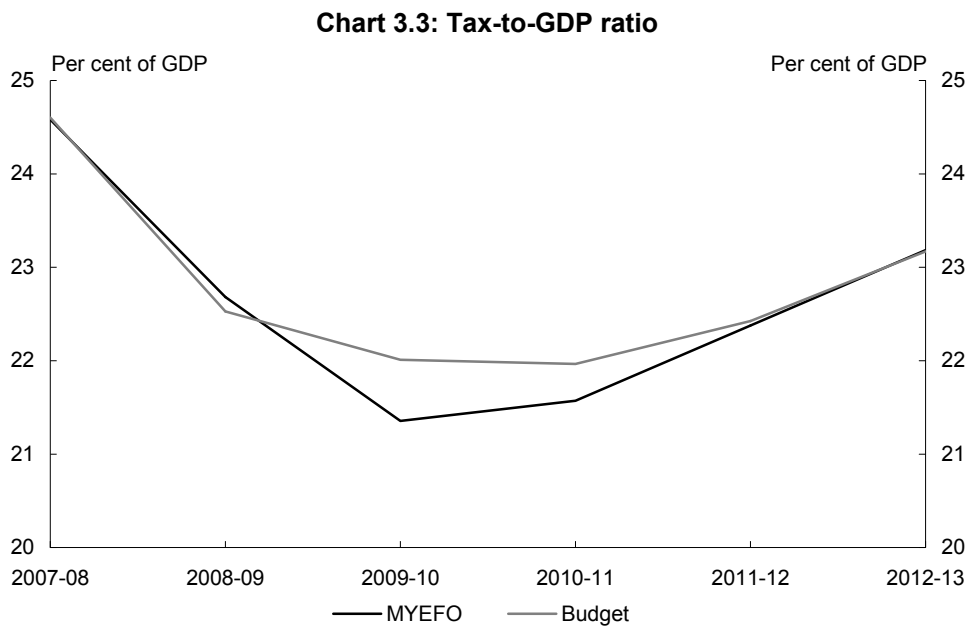
Lower than expected hours worked in the first part of 2009-10 (and the last months of 2008-09) and higher estimates of tax-exempt superannuation fund income have reduced receipts relative to Budget. (These lower receipts are offset in part by lower than forecast unemployment benefits due to a smaller than expected increase in the number of unemployed.)

While income taxes have been lower than anticipated, indirect taxes have held up and, with the stronger economic conditions in prospect, are now anticipated to be higher than at Budget (as the improved outlook for consumption immediately translates into higher estimates of GST and excise duty receipts).

Overall, 2009-10 receipts have been revised up by \$1.6 billion, with stronger indirect tax and non-tax receipts partly offset by weaker income tax from companies and superannuation funds. From 2010-11 income taxes recover in general, resulting in

upwards revisions of \$8.9 billion in 2010-11 and larger amounts later in the forward estimates.

The lag between economic activity and collection of tax means that, in the short term, GDP has been revised up by more than tax receipts. Taken together, these revisions have resulted in the estimated tax receipts-to-GDP ratio being revised down by around ½ of a percentage point in 2009-10 (Chart 3.3). The effects of this lag diminish over time so that the tax receipts-to-GDP ratio recovers to around its Budget time level by the end of the forward estimates.



While taxation receipts have been revised up by \$40 billion in this MYEFO, over the five-year period 2008-09 to 2012-13, aggregate tax receipts are still down by around \$170 billion overall since the 2008-09 Budget as the Australian economy has been buffeted by the global recession.

Forecasting turning points in the economy is difficult as is forecasting tax receipts around such turning points. In the current period, this is made unusually challenging by some apparently large discrepancies emerging in recent quarters between the income and expenditure measures of GDP.

Table 3.6: Australian Government general government sector receipts — 2009-10

	Estimates		Change on Budget	
	Budget \$m	MYEFO \$m	\$m	%
Individuals and other withholding taxes				
Gross income tax withholding	117,710	118,000	290	0.2
Gross other individuals	26,600	27,000	400	1.5
less: Refunds	24,640	25,270	630	2.6
Total individuals and other withholding taxation	119,670	119,730	60	0.1
Fringe benefits tax	3,390	3,390	0	0.0
Superannuation funds	7,960	6,650	-1,310	-16.5
Company tax	53,040	52,650	-390	-0.7
Petroleum resource rent tax	1,680	1,530	-150	-8.9
Income taxation receipts	185,740	183,950	-1,790	-1.0
Sales taxes				
Goods and services tax	41,453	42,512	1,059	2.6
Wine equalisation tax	700	720	20	2.9
Luxury car tax	370	390	20	5.4
Total sales taxes	42,523	43,622	1,099	2.6
Excise duty				
Petrol	6,250	6,330	80	1.3
Diesel	6,490	6,740	250	3.9
Beer	2,050	2,050	0	0.0
Tobacco	5,510	5,630	120	2.2
Other excisable products	3,460	3,630	170	4.9
of which: Other excisable beverages(a)	970	940	-30	-3.1
Total excise duty receipts	23,760	24,380	620	2.6
Customs duty				
Textiles, clothing and footwear	830	790	-40	-4.8
Passenger motor vehicles	540	600	60	11.1
Excise-like goods	2,780	2,890	110	4.0
Other imports	1,520	1,450	-70	-4.6
less: Refunds and drawbacks	380	380	0	0.0
Total customs duty receipts	5,290	5,350	60	1.1
Carbon Pollution Reduction Scheme	-	-	-	-
Other indirect taxation				
Agricultural levies	353	371	18	5.0
Other taxes	1,770	2,066	297	16.8
Total other indirect taxation receipts	2,122	2,437	315	14.8
Indirect taxation receipts	73,696	75,789	2,093	2.8
Taxation receipts	259,436	259,739	303	0.1
Sales of goods and services	7,480	7,941	462	6.2
Dividends	5,663	6,885	1,222	21.6
Interest received	4,426	4,684	258	5.8
Other non-taxation receipts	4,979	4,359	-621	-12.5
Non-taxation receipts(b)	22,548	23,869	1,321	5.9
Total receipts(b)	281,983	283,608	1,625	0.6
<i>Memorandum:</i>				
Capital gains tax	5,820	6,540	720	12.4
Medicare levy receipts	8,630	8,320	-310	-3.6

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

(b) Includes Future Fund earnings.

Table 3.7: Australian Government general government sector receipts — 2010-11

	Estimates		Change on Budget	
	Budget \$m	MYEFO \$m	\$m	%
Individuals and other withholding taxes				
Gross income tax withholding	121,550	124,390	2,840	2.3
Gross other individuals	26,000	27,430	1,430	5.5
/less: Refunds	23,780	24,470	690	2.9
Total individuals and other withholding taxation	123,770	127,350	3,580	2.9
Fringe benefits tax	3,520	3,520	0	0.0
Superannuation funds	9,230	8,140	-1,090	-11.8
Company tax	53,390	56,500	3,110	5.8
Petroleum resource rent tax	1,550	1,660	110	7.1
Income taxation receipts	191,460	197,170	5,710	3.0
Sales taxes				
Goods and services tax	43,680	45,160	1,480	3.4
Wine equalisation tax	720	760	40	5.6
Luxury car tax	360	370	10	2.8
Total sales taxes	44,760	46,290	1,530	3.4
Excise duty				
Petrol	6,110	6,180	70	1.1
Diesel	6,570	6,920	350	5.3
Beer	2,100	2,110	10	0.5
Tobacco	5,460	5,600	140	2.6
Other excisable products	3,680	3,950	270	7.3
of which: Other excisable beverages(a)	1,060	1,040	-20	-1.9
Total excise duty receipts	23,920	24,760	840	3.5
Customs duty				
Textiles, clothing and footwear	580	630	50	8.6
Passenger motor vehicles	400	420	20	5.0
Excise-like goods	2,850	2,970	120	4.2
Other imports	1,660	1,590	-70	-4.2
/less: Refunds and drawbacks	380	380	0	0.0
Total customs duty receipts	5,110	5,230	120	2.3
Carbon Pollution Reduction Scheme	940	820	-120	-12.8
Other indirect taxation				
Agricultural levies	352	355	3	0.8
Other taxes	2,058	2,091	34	1.6
Total other indirect taxation receipts	2,410	2,446	37	1.5
Indirect taxation receipts	77,140	79,546	2,407	3.1
Taxation receipts	268,600	276,716	8,117	3.0
Sales of goods and services	7,723	8,559	835	10.8
Dividends	3,362	3,076	-286	-8.5
Interest received	4,345	4,684	339	7.8
Other non-taxation receipts	4,237	4,096	-140	-3.3
Non-taxation receipts(b)	19,666	20,415	748	3.8
Total receipts(b)	288,266	297,131	8,865	3.1
<i>Memorandum:</i>				
<i>Capital gains tax</i>	6,850	8,170	1,320	19.3
<i>Medicare levy receipts</i>	8,990	8,590	-400	-4.4

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

(b) Includes Future Fund earnings.

Variations to the fiscal balance estimates

The fiscal balance is expected to be in deficit by \$54.4 billion in 2009-10, \$1.2 billion higher than forecast in the 2009-10 Budget. This reflects an increase of \$1.2 billion in revenue, offset by an increase in expenses of \$2.0 billion and an increase in net capital investment of \$488 million.

Policy decisions since the 2009-10 Budget have reduced the expected deficits over the period 2009-10 to 2012-13 by \$1.8 billion, mainly through reducing expenses by \$2.1 billion over four years.

Table 3.8 provides a reconciliation of the fiscal balance estimates.

Table 3.8: Reconciliation of general government fiscal balance estimates^(a)

	Estimates		Projections	
	2009-10	2010-11	2011-12	2012-13
	\$m	\$m	\$m	\$m
2009-10 Budget fiscal balance	-53,145	-55,956	-41,751	-30,323
Per cent of GDP	-4.5	-4.6	-3.2	-2.2
Changes between 2009-10 Budget and MYEFO				
Effect of policy decisions(b)				
Revenue	-34	-103	-78	-65
Expenses	49	-1,491	-354	-329
Net capital investment	402	-218	-107	-6
Total policy decisions impact on fiscal balance	-484	1,605	383	271
Effect of parameter and other variations				
Revenue	1,244	9,157	15,239	15,235
Expenses	1,905	1,943	2,471	3,413
Net capital investment	87	-614	-438	-272
Total parameter and other variations impact on fiscal balance	-747	7,828	13,207	12,094
2009-10 MYEFO fiscal balance	-54,377	-46,522	-28,161	-17,958
Per cent of GDP	-4.5	-3.6	-2.1	-1.2

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

Variations in revenue estimates

Since the 2009-10 Budget, economic circumstances have stabilised somewhat and the economic outlook has improved. Consequently, estimated total revenue has been revised up in 2009-10 by \$1.2 billion (0.4 per cent) and in 2010-11 by \$9.1 billion (3.1 per cent). The upward revision in 2009-10, in particular, has been tempered by a longer than previously expected delay in taxation revenue responding to the improved economic outlook.

Policy measures have reduced revenue since the 2009-10 Budget by \$280 million over the four-year period 2009-10 to 2012-13. Major policy decisions affecting revenue over this period include:

- extending the eligibility for exemption from interest withholding tax to Commonwealth Government Securities, which decreases revenue by \$285 million over the forward estimates period. The cost of this measure is largely offset by a reduction in the Government's interest costs which is expected to decrease government expenditure by \$231.5 million over the forward estimates period; and
- changes to the Budget measure to reform the taxation of employee share schemes, reducing revenue by \$65 million over the forward estimates period.

A full list of revenue measures announced since the 2009-10 Budget is provided at Appendix A.

Detailed Australian Government general government sector revenue estimates for 2009-10 and 2010-11, compared with the estimates published in the 2009-10 Budget, are provided in Tables 3.9 and 3.10 respectively.

Table 3.9: Australian Government general government sector revenue — 2009-10

	Estimates		Change on Budget	
	Budget \$m	MYEFO \$m	\$m	%
Individuals and other withholding taxes				
Gross income tax withholding	119,000	119,290	290	0.2
Gross other individuals	28,350	29,050	700	2.5
<i>less: Refunds</i>	24,640	25,270	630	2.6
Total individuals and other withholding taxation	122,710	123,070	360	0.3
Fringe benefits tax	3,460	3,430	-30	-0.9
Superannuation funds	7,990	6,690	-1,300	-16.3
Company tax	54,980	54,670	-310	-0.6
Petroleum resource rent tax	1,720	1,450	-270	-15.7
Income taxation revenue	190,860	189,310	-1,550	-0.8
Sales taxes				
Goods and services tax	43,630	44,260	630	1.4
Wine equalisation tax	710	730	20	2.8
Luxury car tax	370	390	20	5.4
Total sales taxes	44,710	45,380	670	1.5
Excise and customs				
Excise duty				
Petrol	6,340	6,390	50	0.8
Diesel	6,490	6,720	230	3.5
Beer	2,050	2,050	0	0.0
Tobacco	5,510	5,630	120	2.2
Other excisable products	3,460	3,620	160	4.6
Of which: Other excisable beverages(a)	970	940	-30	-3.1
Total excise duty revenue	23,850	24,410	560	2.3
Customs duty				
Textiles, clothing and footwear	830	790	-40	-4.8
Passenger motor vehicles	870	930	60	6.9
Excise-like goods	2,780	2,890	110	4.0
Other imports	1,530	1,460	-70	-4.6
<i>less: Refunds and drawbacks</i>	240	240	0	0.0
Total customs duty revenue	5,770	5,830	60	1.0
Carbon Pollution Reduction Scheme	-	-	-	-
Other indirect taxation				
Agricultural levies	353	371	18	5.0
Other taxes	2,185	2,207	22	1.0
Total other indirect taxation revenue	2,537	2,578	40	1.6
Indirect taxation revenue	76,867	78,198	1,330	1.7
Taxation revenue	267,727	267,508	-220	-0.1
Sales of goods and services	7,483	7,953	470	6.3
Dividends	6,413	7,384	971	15.1
Interest received	4,697	4,749	52	1.1
Other non-taxation revenue	4,292	4,229	-63	-1.5
Non-taxation revenue(b)	22,884	24,315	1,431	6.3
Total revenue(b)	290,612	291,823	1,211	0.4
<i>Memorandum:</i>				
<i>Capital gains tax</i>	5,820	6,540	720	12.4
<i>Medicare levy revenue</i>	8,630	8,320	-310	-3.6

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

(b) Includes Future Fund earnings.

Table 3.10: Australian Government general government sector revenue — 2010-11

	Estimates		Change on Budget	
	Budget \$m	MYEFO \$m	\$m	%
Individuals and other withholding taxes				
Gross income tax withholding	122,630	125,540	2,910	2.4
Gross other individuals	27,690	29,390	1,700	6.1
<i>less:</i> Refunds	23,780	24,470	690	2.9
Total individuals and other withholding taxation	126,540	130,460	3,920	3.1
Fringe benefits tax	3,590	3,560	-30	-0.8
Superannuation funds	9,260	8,190	-1,070	-11.6
Company tax	55,740	58,930	3,190	5.7
Petroleum resource rent tax	1,710	1,750	40	2.3
Income taxation revenue	196,840	202,890	6,050	3.1
Sales taxes				
Goods and services tax	45,960	47,250	1,290	2.8
Wine equalisation tax	730	770	40	5.5
Luxury car tax	360	370	10	2.8
Total sales taxes	47,050	48,390	1,340	2.8
Excise and customs				
Excise duty				
Petrol	6,200	6,270	70	1.1
Diesel	6,570	6,900	330	5.0
Beer	2,100	2,110	10	0.5
Tobacco	5,460	5,600	140	2.6
Other excisable products	3,680	3,950	270	7.3
Of which: Other excisable beverages(a)	1,060	1,040	-20	-1.9
Total excise duty revenue	24,010	24,830	820	3.4
Customs duty				
Textiles, clothing and footwear	580	630	50	8.6
Passenger motor vehicles	630	650	20	3.2
Excise-like goods	2,850	2,970	120	4.2
Other imports	1,670	1,600	-70	-4.2
<i>less:</i> Refunds and drawbacks	240	240	0	0.0
Total customs duty revenue	5,490	5,610	120	2.2
Carbon Pollution Reduction Scheme	-	-	-	-
Other indirect taxation				
Agricultural levies	352	355	3	0.8
Other taxes	2,239	2,262	23	1.0
Total other indirect taxation revenue	2,591	2,617	26	1.0
Indirect taxation revenue	79,141	81,447	2,306	2.9
Taxation revenue	275,981	284,337	8,356	3.0
Sales of goods and services	7,746	8,565	819	10.6
Dividends	2,562	2,228	-334	-13.0
Interest received	4,586	4,856	270	5.9
Other non-taxation revenue	3,967	3,909	-58	-1.5
Non-taxation revenue(b)	18,861	19,558	697	3.7
Total revenue(b)	294,841	303,895	9,053	3.1
<i>Memorandum:</i>				
<i>Capital gains tax</i>	6,850	8,170	1,320	19.3
<i>Medicare levy revenue</i>	8,990	8,590	-400	-4.4

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

(b) Includes Future Fund earnings.

Part 3: Fiscal strategy and outlook

Parameter and other variations have contributed almost all the change to the revenue estimates since the 2009-10 Budget. The parameter and other variations discussed in this section represent revisions to expected revenue driven by recent economic outcomes and tax collections, and the updated economic outlook, and explicitly exclude the impact of new policy decisions.

The revenue estimates are based on the forecasts and projections of economic activity presented in Part 2. The key economic parameters that influence revenue are shown in Table 3.11. The table shows effects on the Australian Government's main tax bases of the changed economic circumstances and outlook since the 2009-10 Budget.

Table 3.11: Key revenue parameters^(a)

	Outcome	Estimates		Projections	
	2008-09 %	2009-10 %	2010-11 %	2011-12 %	2012-13 %
Revenue parameters at 2009-10 MYEFO					
Nominal gross domestic product (non-farm)	6.2	1 1/4	5 1/2	6 1/4	6 1/4
<i>Change since Budget</i>	0.6	2 3/4	1 3/4	0	- 1/2
Compensation of employees (non-farm)(b)	5.6	2 1/4	5	6 1/4	6 1/4
<i>Change since Budget</i>	-0.8	3/4	2	1/4	- 1/4
Corporate gross operating surplus(c)	6.8	-3 1/4	6 1/4	6 1/4	6 1/4
<i>Change since Budget</i>	0.4	7 3/4	1 1/2	- 3/4	-1
Unincorporated business income (non-farm)	1.4	2 1/4	5 1/2	6 1/4	6 1/4
<i>Change since Budget</i>	0.9	3 1/2	1/2	0	- 1/2
Property income(d)	-7.5	2 1/4	7 1/2	6 1/4	6 1/4
<i>Change since Budget</i>	-12.1	4 1/2	2	0	- 1/2
Consumption subject to GST	3.4	1	3 1/2	6 1/4	6 1/4
<i>Change since Budget</i>	0.9	1 1/2	1 3/4	0	- 1/2

(a) Current prices, per cent change on previous year.

(b) Compensation of employees measures total remuneration earned by employees.

(c) Corporate GOS is the National Accounts measure of company profits.

(d) Property income measures income derived from rent, dividends and interest.

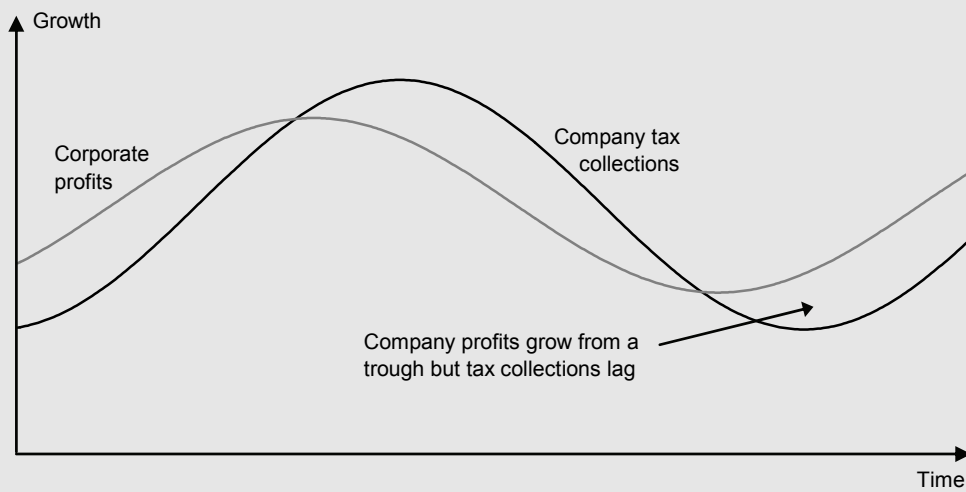
As a result of the revisions to the economic and financial outlook, parameter and other variations have increased revenue across the forward estimates since the 2009-10 Budget, contributing an increase of \$1.2 billion in 2009-10 and \$9.2 billion in 2010-11.

Company tax in 2009-10 is expected to be \$310 million lower than the 2009-10 Budget estimate, as less favourable corporate profit conditions through 2008-09 and 2009-10 are now expected to have a deeper and more lasting impact on company taxes. Since Budget, greater than anticipated levels of prior year losses able to be carried into future tax years, and the tax collection system responding with a more pronounced lag to improved profit and investment conditions as the economy recovers from a downturn, are both thought to be acting to reduce company tax in 2009-10 (see Box 1). These influences will be better understood once the relevant tax returns are lodged later in 2009-10.

Box 1: The lag between company profits and company tax

Most companies pay four quarterly tax instalments (calculated using a measure of gross quarterly income and an ‘instalment rate’) and a year end ‘balancing payment’ to settle any remaining tax liability. The instalment rate is essentially a proxy for company profitability or profit margins and changes in line with the company’s performance (being recalculated after annual tax returns are submitted). In periods of significantly changing profitability this system results in a lag between company profits and tax collections (Chart 3.4).

Chart 3.4: Company profitability and tax collection cycle



In general, company profitability in 2008-09 was lower than in 2007-08. So as companies lodge their 2008-09 tax returns (which is occurring through 2009-10) they receive lower instalment rates. These instalment rates generally first apply to tax instalments through 2009-10 (and continue to apply through parts of 2010-11).

Company profit growth is expected to remain negative in 2009-10 (even though it has been revised upwards since Budget). Consequently, tax instalments and the associated balancing payment are expected to be low (and in some cases falling). As such, the instalment rate recalculated from 2009-10 tax returns is anticipated to remain low. Company profitability is forecast to increase for 2010-11 but companies will still pay instalments based on low instalment rates, continuing to weigh on 2010-11 company tax revenue.

With the projected economic recovery, the 2010-11 income year balancing payment (which will be paid in 2011-12 for most companies) is expected to be much larger as the instalment rate will have not fully reflected the level of company profitability. This means that increased profits in 2010-11 are not expected to result in significantly higher company tax collections until 2011-12. Instalment rates will then begin to rise again, further boosting company tax in 2011-12 and 2012-13.

Part 3: Fiscal strategy and outlook

Estimated company tax in 2010-11 has been revised upwards by \$3.2 billion, boosted by higher company profit forecasts. Prior year losses and lags in the company tax collection system are still expected to be exerting some negative influence on the estimates in this year.

Upward revisions to company profits in 2009-10 and 2010-11 since Budget are anticipated to contribute to significant increases in company tax later in the forward estimates period as tax collections 'catch up' with the improved profit conditions.

Since the 2009-10 Budget, estimates for superannuation funds revenue have been revised down by \$1.3 billion in 2009-10 and almost \$1.1 billion in 2010-11. The revisions stem from higher estimates of the proportion of fund income that is tax exempt because it is derived from assets in the draw-down (rather than accumulation) phase, and the utilisation of carried-forward losses from 2008-09.

Gross income tax withholding (ITW) revenue is expected to be \$315 million higher in 2009-10 and \$3.0 billion higher in 2010-11 relative to the 2009-10 Budget estimates. These changes reflect the improved outlook for employment growth in 2009-10 and 2010-11 offset by lower than expected hours worked in the first part of 2009-10 (and the last months of 2008-09).

Gross other individuals' revenue is forecast to increase by \$710 million in 2009-10 since Budget owing to stronger than expected growth in unincorporated businesses and realised rental incomes. In 2010-11, gross other individuals' revenue is forecast to increase by \$1.8 billion owing to higher forecast growth rates for incomes from capital gains, unincorporated business incomes, interest and dividends.

Refunds from individuals are expected to increase by \$620 million in 2009-10, in part reflecting lower hours worked towards the end of 2008-09 (income tax withholding schedules assume steady wages and a fall in wages will normally increase refunds for the affected people in the next year). Refunds have been revised up by \$660 million in 2010-11 following stronger than expected employment growth (more taxpayers typically generate greater aggregate refunds).

Expected capital gains tax (CGT) revenue (which forms part of individuals, companies and superannuation funds income taxes) has been revised up by around \$700 million in 2009-10 and \$1.3 billion in 2010-11 as equity prices have recovered from their lows earlier in 2009.

Estimated revenue from petroleum resource rent tax (PRRT) has decreased by \$270 million in 2009-10 but increased only slightly in 2010-11 chiefly owing to the exchange rate being higher than anticipated at Budget (which reduces oil prices denominated in Australian dollars).

GST revenue in 2009-10 has been revised up by \$630 million since Budget, reflecting stronger outlook for taxable consumption and dwelling investment partly offset by

lower forecast growth for ownership transfer costs. In 2010-11, GST revenue is forecast to be higher by \$1.3 billion owing to expected continued strength in taxable consumption.

In 2009-10 and 2010-11, estimated revenue from excise duty has been revised up by \$560 million and \$820 million, respectively, since the 2009-10 Budget. This is mainly the result of an increase in diesel excise from stronger than expected activity in the mining and manufacturing industries, which are the biggest consumers of off-road diesel. Excise from petrol and other refined fuel products has also been revised up since Budget in line with the improved economic outlook. Tobacco excise has been revised upwards by around \$120 million in 2009-10 and \$140 million 2010-11.

Customs duty revenue has been revised up by \$60 million in 2009-10 and by \$120 million in 2010-11, reflecting stronger than expected spirits and tobacco imports, partly offset by weaker than expected petroleum and general imports.

Analysis of the sensitivity of the taxation revenue estimates to changes in the economic outlook is provided in Attachment A to this part.

Non-taxation revenue in 2009-10 is expected to be \$1.4 billion higher than forecast at the 2009-10 Budget, largely reflecting:

- a \$1.0 billion increase in the Reserve Bank of Australia dividend received in 2009-10, largely reflecting further gains realised from sales of foreign currency and from the sale of foreign securities; and
- a \$358 million increase in estimated fee revenue from the Government's guarantee schemes, reflecting both the receipt of initial applications for coverage under the Guarantee of State and Territory Borrowing and higher than anticipated growth in guaranteed liabilities under the Guarantee Scheme for Large Deposits and Wholesale Funding.

Variations in expense estimates

Since the 2009-10 Budget, estimated expenses for 2009-10 have increased by \$2.0 billion reflecting increased expenses from new policy decisions of \$49 million and net parameter and other variations of \$1.9 billion.

Table 3.12: Reconciliation of general government sector expense estimates

	Estimates		Projections	
	2009-10 \$m	2010-11 \$m	2011-12 \$m	2012-13 \$m
2009-10 Budget expenses	338,213	344,528	356,388	374,990
Changes between 2009-10 Budget and MYEFO				
Effect of policy decisions(a)	49	-1,491	-354	-329
Effect of economic parameter variations				
Total economic parameter variations	-1,578	-1,719	-1,714	-739
<i>Unemployment benefits</i>	-1,439	-1,869	-1,587	-718
<i>Prices and wages</i>	-98	201	-75	30
<i>Interest and exchange rates</i>	-41	-51	-51	-51
Public debt interest	628	1,364	1,666	1,302
Program specific parameter variations	2,608	3,160	3,568	4,195
Slippage in 2009-10 Budget decisions	-2	-5	-7	-9
Other variations	248	-856	-1,042	-1,335
Total variations	1,954	452	2,117	3,084
2009-10 MYEFO expenses	340,166	344,980	358,505	378,075

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

Policy decisions since the 2009-10 Budget have increased estimated expenses by \$49 million in 2009-10, but have reduced expenses by \$2.1 billion over the forward estimates. Major policy decisions since the Budget include:

- additional funding for the Solar Homes and Communities Plan, which was terminated on 9 June 2009, but is expected to cost an additional \$511 million in 2009-10 (and a further \$23 million in 2010-11) in relation to applications received prior to the closure of the scheme;
- the closure of the Low Emission Assistance Plan for Renters and modification of the Home Insulation Program, reducing estimated expenses by \$310 million in 2009-10 (and a further \$300 million in 2010-11 and \$250 million in 2011-12);
- the rephasing of \$300 million in funding for the Clean Energy Initiative from 2009-10 to 2013-14;
- the previously announced reduction in funding of social housing under the Nation Building and Jobs Plan, which is reducing forecast expenses by \$150 million in 2009-10 (and a further \$450 million in 2010-11 and \$150 million in 2011-12). These funds have been redirected to the Primary Schools for the 21st Century component of the Building the Education Revolution (BER) program;
- the implementation of a range of efficiency measures identified by agencies through a whole-of-government savings exercise. Savings will be delivered by removing duplication and overlap, reducing corporate overheads, rationalising property and scaling back resourcing in agencies which have other opportunities to reduce the cost of services, resulting in a reduction in estimated expenses of \$43 million in

2009-10 (and a further \$97 million in 2010-11, \$122 million in 2011-12 and \$121 million in 2012-13);

- a reduction in the allocation of Education Investment Fund (EIF) funding available to Round 3 and the Sustainability Round by \$175 million in 2010-11 (and a further \$25 million in 2011-12). The \$200 million will be returned to the balance of the EIF for future investment; and
- a rephasing of funding allocated to the BER program, reducing expenses by \$500 million 2010-11 and increasing expenses by \$500 million in 2011-12.

Parameter and other variations since Budget have resulted in an increase in expenses of \$1.9 billion in 2009-10 (and \$9.7 billion across the forward estimates) largely reflecting:

- a \$986 million bring forward of Home Insulation Program expenses to 2009-10 from 2010-11 and 2011-12 in response to stronger than anticipated demand;
- a \$980 million (\$5.6 billion over four years) increase in expected GST payments to the States and Territories, consistent with an increase in expected GST collection;
- a \$628 million (\$5.0 billion over four years) increase in expected public debt interest expenses, reflecting an increase in the weighted average yield on bonds and the repurchase prior to maturity of part of the 2010 Treasury Indexed Bond line;
- a \$620 million (\$1.3 billion over two years) increase in expenses for the Building the Education Revolution (BER) program reflecting a strong take-up of funding under the program. The reallocation of \$178 million in expenses from the Science and Language Centres component of the BER to the Primary Schools for the 21st Century (P21) component of the BER provides a total increase in funding for the P21 of \$1.5 billion over two years;
- a \$322 million increase in estimated state road transport expenses reflecting reprofiled project commitments;
- a \$276 million (\$1.1 billion over four years) increase in Private Health Insurance Rebate expenses primarily reflecting higher than expected take-up of private health insurance;
- a \$266 million (\$1.4 billion over four years) increase in forecast Medicare expenses largely reflecting higher than anticipated spending on GP consultations and the implementation of a new forecasting method;
- a \$248 million increase in forecast expenses for the Chronic Disease Dental Scheme (CDDS) reflecting higher than anticipated expenditure for the period 1 July to 31 December 2009 and the continuation of this scheme until 31 March 2010. The

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Government announced this scheme would be ceased in the 2008-09 Budget; however, the determination to cease the CDDS was disallowed by Parliament. The closure of the CDDS remains the Government's policy;

- a \$224 million (\$1 billion over four years) increase in expected tertiary Youth Allowance expenses due to an increase in expected number of beneficiaries and higher than expected average payment rates; and
- a \$221 million (\$1.8 billion over four years) increase in pharmaceutical and pharmaceutical services expenses to reflect increased demand for some drug groups which is expected to be sustained over the forward estimates period.

These increases have been partially offset by:

- a \$1.4 billion (\$5.2 billion over four years) reduction in estimated Newstart and Youth Allowance (other) expenses, reflecting an expected reduction in recipients, partly offset by higher average expected payment rates;
- a \$608 million (\$1.5 billion over four years) adjustment owing to the removal of estimated Higher Education Endowment Fund (HEEF) expenses, associated with it being rolled into the EIF; and
- a reduction in expense estimates following the inclusion of a provision for underspends in 2009-10. 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.

A full description of all policy measures since Budget can be found in Appendix A. Estimates of Australian Government general government expenses by function and sub-function can be found in Attachment C.

Variations in net capital investment estimates

In 2009-10, forecast net capital investment has increased by \$488 million since Budget. This mainly reflects the bring forward of funding in relation to the Water for the Future – Restoring the Balance in the Murray Darling Basin program, increasing capital investment by \$320 million in 2009-10 (offset by a corresponding decrease in capital investment over the forward estimates).

Table 3.13: Reconciliation of general government sector net capital investment estimates

	Estimates		Projections	
	2009-10 \$m	2010-11 \$m	2011-12 \$m	2012-13 \$m
2009-10 Budget net capital investment	5,545	6,269	6,139	5,016
Changes between 2009-10 Budget and MYEFO				
Effect of policy decisions(a)	402	-218	-107	-6
Effect of parameter and other variations	87	-614	-438	-272
Total variations	488	-832	-545	-279
2009-10 MYEFO net capital investment	6,033	5,437	5,593	4,738

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

Net debt, net financial worth and net worth

The stronger economic outlook has contributed to lower estimated net debt across the forward estimates.

The level of net debt in 2009-10 is estimated to be \$45.2 billion, which is \$8.5 billion lower than the 2009-10 Budget estimate of \$53.7 billion. This primarily reflects a reduction in the value of Commonwealth Government Securities on issue.

The Australian Government's net debt, at 3.7 per cent of GDP in 2009-10, remains low by international standards. The average net debt level in the major advanced economies, measured for all levels of government, is estimated to be 69.5 per cent of GDP in 2009 and 77.6 per cent of GDP in 2010.

The improvement in Australia's net debt is projected to be sustained across the forward estimates, as the reduction in the projections of the headline cash deficit relative to the 2009-10 Budget translates into a stronger balance sheet. By the end of the forward estimates in 2012-13, net debt is expected to be \$135.5 billion (9.4 per cent of GDP), a decrease of \$52.7 billion from the Budget estimate of \$188.2 billion (13.6 per cent of GDP).

Net financial worth for the Australian Government general government sector is estimated to be -\$121.8 billion in 2009-10, compared to the Budget estimate of -\$136.0 billion.

Estimated net worth in 2009-10 has increased to -\$23.0 billion, which is \$15.6 billion higher than the 2009-10 Budget estimate of -\$38.7 billion. The increase in net worth in part reflects the higher than expected value of the Government's non-financial assets including land and buildings.

Table 3.14 provides a summary of Australian Government general government sector net debt, net financial worth, net worth and net interest payments.

Table 3.14: Australian Government general government sector net financial worth, net worth, net debt and net interest payments

	Estimates			
	2009-10		2010-11	
	Budget \$b	MYEFO \$b	Budget \$b	MYEFO \$b
Financial assets	207.6	224.7	209.4	232.3
Non-financial assets	97.3	98.7	103.1	103.6
Total assets	304.9	323.4	312.5	335.9
Total liabilities	343.5	346.5	402.5	402.4
Net worth	-38.7	-23.0	-90.0	-66.5
Net financial worth(a)	-136.0	-121.8	-193.1	-170.1
Per cent of GDP	-11.5	-10.0	-15.8	-13.3
Net debt(b)	53.7	45.2	112.2	90.4
Per cent of GDP	4.6	3.7	9.2	7.0
Net interest payments	1.5	2.0	4.7	5.0
Per cent of GDP	0.1	0.2	0.4	0.4
	Projections			
	2011-12		2012-13	
	Budget \$b	MYEFO \$b	Budget \$b	MYEFO \$b
Financial assets	225.1	240.3	238.0	246.1
Non-financial assets	108.9	108.6	113.7	113.2
Total assets	334.0	348.9	351.7	359.3
Total liabilities	461.6	440.4	506.7	466.4
Net worth	-127.6	-91.5	-155.0	-107.0
Net financial worth(a)	-236.5	-200.1	-268.7	-220.3
Per cent of GDP	-18.2	-14.7	-19.4	-15.2
Net debt(b)	161.7	121.8	188.2	135.5
Per cent of GDP	12.4	8.9	13.6	9.4
Net interest payments	6.0	6.9	7.6	8.2
Per cent of GDP	0.5	0.5	0.6	0.6

(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.