

PART 1: AUSTRALIAN GOVERNMENT BUDGET OUTCOME

OVERVIEW

The 2010-11 Final Budget Outcome (FBO) highlights the significant impact of legacy effects of the global financial crisis, the recent natural disasters and a strong Australian dollar on the Government's fiscal position.

In 2010-11, the Australian Government general government sector recorded an underlying cash deficit of \$47.7 billion (3.4 per cent of gross domestic product (GDP)). The fiscal balance was in deficit by \$51.5 billion (3.7 per cent of GDP).

While Australia avoided recession during the global financial crisis, the economy slowed markedly and businesses accumulated losses that continue to be offset against tax liabilities. From the onset of the global financial crisis it had been anticipated that these losses would hit tax receipts hardest in 2010-11. Tax receipts in 2010-11 came in around \$40 billion (13 per cent) below the level that was forecast in the 2008-09 Budget before the crisis.

The recent natural disasters subtracted $\frac{3}{4}$ of a percentage point from real GDP growth in 2010-11, driven by substantial production losses in the mining and agricultural sectors. The production losses, in turn, lowered tax receipts significantly.

The significant appreciation of the Australian dollar during 2010-11 also had a dampening impact on corporate profits in both the mining and non-mining sectors, further reducing tax receipts.

Factors that weighed down on receipts in 2010-11 are likely to continue to have some impact going forward. Particularly, the weakness in company tax receipts has continued through to collections in 2011-12.

The Government's sustained commitment to the fiscal strategy with ongoing spending restraint and recovering revenues means that the budget is expected to return to surplus in 2012-13, as set out in the 2011-12 Budget.

In cash terms, the final budget outcome for 2010-11 was \$1.6 billion lower than the underlying cash deficit estimated at the time of the 2011-12 Budget, with total cash receipts (excluding Future Fund earnings) \$2.0 billion lower than expected and total cash payments \$3.6 billion lower than expected.

Table 1: Australian Government general government sector budget aggregates

	2009-10 Outcome	2010-11 Estimate at 2011-12 Budget	2010-11 Outcome
	\$b	\$b	\$b
Receipts(a)	284.7	303.7	302.0
Per cent of GDP	22.2	21.9	21.7
Payments(b)	336.9	349.7	346.1
Per cent of GDP	26.2	25.2	24.9
Future Fund earnings	2.5	3.4	3.7
Underlying cash balance(c)	-54.8	-49.4	-47.7
Per cent of GDP	-4.3	-3.6	-3.4
Revenue(a)	292.8	310.8	309.9
Per cent of GDP	22.8	22.4	22.3
Expenses	339.2	350.8	356.1
Per cent of GDP	26.4	25.3	25.6
Net operating balance	-46.5	-40.0	-46.2
Net capital investment	6.4	5.7	5.3
Fiscal balance	-52.9	-45.7	-51.5
Per cent of GDP	-4.1	-3.3	-3.7
<i>Memorandum item:</i>			
Headline cash balance	-56.5	-54.1	-51.1

(a) Includes Future Fund earnings.

(b) Equivalent to cash payments for operating activities, purchases of non-financial assets and net acquisition of assets under finance leases.

(c) Excludes Future Fund earnings.

At the end of 2010-11, Australian Government general government sector net debt was \$84.6 billion (6.1 per cent of GDP), which was \$2.2 billion higher than estimated at the time of the 2011-12 Budget. Australian Government general government sector net financial worth was -\$200.8 billion at the end of 2010-11, while net worth was -\$95.4 billion at the end of 2010-11.

UNDERLYING CASH BALANCE

The 2010-11 underlying cash deficit was \$47.7 billion, \$1.6 billion lower than estimated at the 2011-12 Budget. This was the result of lower cash receipts (excluding Future Fund earnings) of \$2.0 billion and lower cash payments of \$3.6 billion.

Table 2: Summary of Australian Government general government sector cash flows

	2010-11 Estimate at 2011-12 Budget \$b	2010-11 Outcome \$b
Cash receipts		
Operating cash receipts excluding Future Fund earnings	299.9	298.0
Future Fund earnings	3.4	3.7
<i>Total operating receipts</i>	303.3	301.6
Capital cash receipts(a)	0.4	0.4
Total cash receipts	303.7	302.0
Cash payments		
Operating cash payments	338.9	336.1
Capital cash payments(b)	10.8	9.9
Total cash payments	349.7	346.0
Finance leases and similar arrangements(c)	0.0	0.1
GFS cash surplus(+)/deficit(-)	-46.0	-44.1
Per cent of GDP	-3.3	-3.2
<i>less</i> Future Fund earnings	3.4	3.7
Underlying cash balance(d)	-49.4	-47.7
Per cent of GDP	-3.6	-3.4
<i>Memorandum items:</i>		
Net cash flows from investments in financial assets for policy purposes	-8.1	-7.0
<i>plus</i> Future Fund earnings	3.4	3.7
Headline cash balance	-54.1	-51.1

(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 Future Fund earnings.

RECEIPTS

Total cash receipts (excluding Future Fund earnings) were \$298.4 billion in 2010-11, around \$2.0 billion lower than estimated in the 2011-12 Budget. This mainly reflects lower than expected tax receipts.

Tax receipts for 2010-11 were \$280.8 billion, \$1.7 billion (0.6 per cent) lower than estimated in the 2011-12 Budget. Excluding GST, tax receipts were \$2.0 billion (0.8 per cent) lower than expected in the 2011-12 Budget. The downward revision in tax receipts is largely a result of:

- a shortfall in company tax receipts of \$838 million (1.5 per cent) below the estimate in the 2011-12 Budget, primarily reflecting weaker than expected taxable income of companies; and

- lower than estimated income tax withholding of \$446 million (0.3 per cent), superannuation funds tax of \$571 million (8.0 per cent), and fringe benefits tax of \$297 million (8.3 per cent) compared to the 2011-12 Budget estimates, reflecting softer than anticipated labour market outcomes.

Weaker collections of company tax and taxes on wages were partially offset by stronger than estimated other individuals' tax receipts, largely driven by stronger than expected capital gains outcomes.

Indirect taxes were in line with the estimate in the 2011-12 Budget with stronger than expected GST receipts broadly offsetting weaker than expected excise duty receipts. Receipts from GST were \$304 million (0.7 per cent) above the estimate in the 2011-12 Budget. Excise and customs duty tax receipts were \$475 million (1.5 per cent) lower than estimated, mainly reflecting weaker than expected tobacco collections.

Non-tax receipts (excluding Future Fund earnings) were \$17.5 billion in 2010-11, \$284 million lower than the estimate in the 2011-12 Budget. The reduction in non-tax receipts (excluding Future Fund earnings) largely relates to an over-estimation of receipts of \$213 million at Budget in the Defence portfolio.

Table 3: Australian Government general government sector receipts

	2010-11 Estimate at 2011-12 Budget \$m	2010-11 Outcome \$m	Change on 2011-12 Budget \$m
Individuals and other withholding taxes			
Gross income tax withholding	130,100	129,654	-446
Gross other individuals	27,400	27,795	395
<i>less:</i> Refunds	24,850	24,711	-139
Total individuals and other withholding taxation	132,650	132,739	89
Fringe benefits tax	3,600	3,303	-297
Company tax	57,100	56,262	-838
Superannuation funds	7,090	6,519	-571
Petroleum resource rent tax	840	806	-34
Income taxation receipts	201,280	199,628	-1,652
Sales taxes			
Goods and services tax	45,779	46,083	304
Wine equalisation tax	700	722	22
Luxury car tax	500	483	-17
Total sales taxes	46,979	47,288	309
Excise duty			
Petrol	5,900	5,892	-8
Diesel	7,320	7,435	115
Beer	1,950	1,952	2
Tobacco	6,720	6,387	-333
Other excisable products	4,180	4,089	-91
Of which: Other excisable beverages(a)	900	897	-3
Total excise duty receipts	26,070	25,756	-314
Customs duty			
Textiles, clothing and footwear	610	639	29
Passenger motor vehicles	480	507	27
Excise-like goods	3,530	3,364	-166
Other imports	1,230	1,287	57
<i>less:</i> Refunds and drawbacks	260	368	108
Total customs duty receipts	5,590	5,429	-161
Other indirect taxation			
Agricultural levies	404	445	42
Other taxes	2,193	2,292	100
Total other indirect taxation receipts	2,596	2,738	141
Indirect taxation receipts	81,235	81,211	-24
Taxation receipts	282,515	280,839	-1,676
Sales of goods and services	7,901	7,522	-379
Interest received	4,954	4,943	-12
Dividends	2,984	3,248	264
Other non-taxation receipts	5,335	5,472	137
Non-taxation receipts(b)	21,175	21,185	10
Total receipts(b)	303,690	302,024	-1,666
<i>Memorandum:</i>			
<i>Medicare levy receipts</i>	8,330	8,269	-61

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

(b) Includes Future Fund earnings.

PAYMENTS

Total cash payments were \$346.1 billion in 2010-11, \$3.6 billion lower than estimated in the 2011-12 Budget. The reduction in payments was largely a result of lower than forecast payments for:

- the Natural Disaster Relief and Recovery Arrangements program, as a result of fewer than expected claims for reimbursement from the States and Territories, primarily in relation to floods in Queensland in 2009 and 2010 and the 2009 Victorian bushfires (\$774 million);
- the National Health and Hospitals Network (\$384 million), in part owing to reward funding relating to the Elective Surgery Waiting List Reduction Plan not being paid in 2010-11. The reward funding is subject to an assessment by the COAG Reform Council, and is now expected to occur in 2011-12;
- a range of health programs, including e-Health, Medicare, pharmaceutical and health workforce related programs, largely reflecting lower than anticipated demand and some goods and services now being delivered in 2011-12 (\$354 million);
- a range of grant programs administered by the Department of Education, Employment and Workplace Relations, including the Higher Education Support program, the Education Infrastructure program and the National Training System program (\$334 million). These underspends were in part owing to lower than expected take-up and longer than expected negotiations to finalise agreements;
- the Pharmaceutical Benefits Scheme, largely reflecting lower than expected usage of a group of drugs used for cancer therapies (Antineoplastics group) (\$259 million);
- improving Australia's energy efficiency programs, primarily reflecting a decline in the demand for householder-initiated inspections and a reduction in inspection costs under the Home Insulation Safety Plan (\$228 million);
- some Department of Defence capital projects (\$212 million), primarily owing to the stronger Australian dollar and payments for a number of major capital projects now being made in 2011-12;
- water reform, mainly reflecting lower than projected settlements for water purchases under the Restoring the Balance in the Murray-Darling Basin program and lower than expected payments for projects under the Water Smart Australia, Sustainable Rural Water Use and Infrastructure, and National Water Security Plan for Cities and Towns programs (\$195 million);
- Health Workforce Australia (HWA), primarily resulting from the longer than anticipated time taken to establish HWA, including to hire staff, set up the

organisational infrastructure and negotiate contracts for the Clinical Training Funding program (\$195 million);

- the Australian Government Disaster Financial Support Payments program, primarily reflecting an over-estimation of direct financial assistance payments following the natural disasters in the summer of 2010-11 (\$162 million);
- the Water for the Future National Partnership, primarily as a result of longer than expected negotiations with State and Territory governments (\$148 million);
- a range of grant and subsidy programs administered by the Department of Resources, Energy and Tourism, including the Clean Energy Initiative programs and the Ethanol Production Grants program (\$125 million). The lower grant and subsidy payments reflect project milestones now scheduled for 2011-12 and disruptions to ethanol production in Queensland owing to floods and cyclone Yasi; and
- the Nation Building road program, where expenses were accrued in 2010-11 but not paid until July 2011 (\$125 million).

These decreases in cash payments have been partially offset by the provision for underspends included in the contingency reserve at Budget.

FISCAL BALANCE

The 2010-11 fiscal balance deficit was \$51.5 billion. This was \$5.8 billion higher than estimated at the 2011-12 Budget while the underlying cash deficit was \$1.6 billion lower than at Budget. The main driver for this difference is the change in accounting treatment for disaster recovery payments made to the States and Territories under the Natural Disaster Relief and Recovery Arrangements program.

REVENUE

Total revenue was \$309.9 billion in 2010-11, \$888 million lower than estimated in the 2011-12 Budget.

Accrual tax revenue was \$289.0 billion in 2010-11, \$1.3 billion below the estimate in the 2011-12 Budget.

- The \$383 million difference between the accrual and cash tax variances is largely driven by the higher than expected number of assessments which were processed in 2010-11, but have not yet translated into cash receipts.

Total non-tax revenue was \$20.9 billion in 2010-11. This was \$405 million higher than estimated at the 2011-12 Budget while non-tax receipts (excluding Future Fund earnings) were \$17.5 billion, \$284 million lower than estimated at Budget.

- The \$689 million difference in outcomes between revenue and non-tax receipts (excluding Future Fund earnings) is largely a result of a \$860 million increase in revenue for the Future Fund owing to higher than expected dividends declared in the June quarter. Future Fund earnings are not included in the underlying cash balance.

Table 4: Australian Government general government sector revenue

	2010-11 Estimate at 2011-12 Budget \$m	2010-11 Outcome \$m	Change on 2011-12 Budget \$m
Individuals and other withholding taxes			
Gross income tax withholding	131,320	130,790	-530
Gross other individuals	29,860	30,642	782
<i>less:</i> Refunds	24,850	24,660	-190
Total individuals and other withholding taxation	136,330	136,772	442
Fringe benefits tax	3,670	3,348	-322
Company tax	57,880	57,312	-568
Superannuation funds	7,220	6,693	-527
Petroleum resource rent tax	940	806	-134
Income taxation revenue	206,040	204,931	-1,109
Sales taxes			
Goods and services tax	48,180	48,093	-87
Wine equalisation tax	720	747	27
Luxury car tax	500	489	-11
Total sales taxes	49,400	49,329	-71
Excise duty			
Petrol	5,910	5,907	-3
Diesel	7,300	7,454	154
Beer	1,950	1,957	7
Tobacco	6,720	6,387	-333
Other excisable products	4,180	4,097	-83
Of which: Other excisable beverages(a)	900	900	0
Total excise duty revenue	26,060	25,803	-257
Customs duty			
Textiles, clothing and footwear	610	643	33
Passenger motor vehicles	780	774	-6
Excise-like goods	3,530	3,364	-166
Other imports	1,240	1,288	48
<i>less:</i> Refunds and drawbacks	120	241	121
Total customs duty revenue	6,040	5,828	-212
Other indirect taxation			
Agricultural levies	404	445	42
Other taxes	2,355	2,669	315
Total other indirect taxation revenue	2,758	3,115	356
Indirect taxation revenue	84,258	84,074	-184
Taxation revenue	290,298	289,005	-1,293
Sales of goods and services	8,058	7,680	-377
Interest	5,277	5,169	-107
Dividends	1,839	2,562	723
Other non-taxation revenue	5,307	5,473	166
Non-taxation revenue(b)	20,480	20,885	405
Total revenue(b)	310,779	309,890	-888
<i>Memorandum:</i>			
<i>Medicare levy revenue</i>	8,330	8,269	-61

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

(b) Includes Future Fund earnings.

EXPENSES AND NET CAPITAL INVESTMENT

Total expenses were \$356.1 billion in 2010-11, \$5.3 billion higher than estimated at the 2011-12 Budget. Total net capital investment was \$5.3 billion in 2010-11, \$416 million lower than estimated at the 2011-12 Budget.

The difference between the higher than estimated net outcome for expenses and net capital investment of \$4.9 billion and the lower than estimated cash payments of \$3.6 billion is largely a result of the recognition of expenses which did not have a corresponding cash payment impact in 2010-11, including for:

- the Natural Disaster Relief and Recovery Arrangements program, owing to a change in accounting treatment determined by the Australian National Audit Office to record the expense in the year in which the disaster occurs rather than when the State or Territory lodges a claim for reimbursement following completion of the work (\$5.1 billion in 2010-11); and
- the provision of GST to the States and Territories, reflecting higher than estimated GST collections (\$437 million). This amount will be paid in 2011-12 following a determination by the Treasurer.

Table 5: Australian Government general government sector expenses by function

	2010-11 Estimate at 2011-12 Budget \$m	2010-11 Outcome \$m
General public services		
Legislative and executive affairs	1,083	1,039
Financial and fiscal affairs	6,947	7,834
Foreign affairs and economic aid	5,749	5,564
General research	2,804	2,687
General services	1,033	1,208
Government superannuation benefits	3,623	4,150
Defence	20,136	20,408
Public order and safety	3,943	3,823
Education	32,555	32,106
Health	57,240	56,070
Social security and welfare	116,739	117,093
Housing and community amenities	5,741	5,543
Recreation and culture	3,342	3,252
Fuel and energy	6,269	5,914
Agriculture, forestry and fishing	3,067	2,546
Mining, manufacturing and construction	2,039	1,456
Transport and communication	4,748	4,664
Other economic affairs		
Tourism and area promotion	160	158
Total labour and employment affairs	4,637	4,669
Immigration	2,041	2,206
Other economic affairs nec	2,216	2,013
Other purposes		
Public debt interest	9,286	9,273
Nominal superannuation interest	6,958	6,997
General purpose inter-governmental transactions	48,919	49,298
Natural disaster relief(a)	997	6,129
Contingency reserve	-1,468	0
Total expenses	350,803	356,100

(a) The 2010-11 outcome reflects a change in the accounting treatment applying to natural disasters, as determined by the Australian National Audit Office.

Table 6: Australian Government general government sector net capital investment by function

	2010-11 Estimate at 2011-12 Budget \$m	2010-11 Outcome \$m
General public services	498	457
Defence	3,506	3,509
Public order and safety	181	135
Education	-6	-9
Health	127	56
Social security and welfare	70	64
Housing and community amenities	277	180
Recreation and culture	105	50
Fuel and energy	5	0
Agriculture, forestry and fishing	461	428
Mining, manufacturing and construction	18	-2
Transport and communication	195	176
Other economic affairs	297	255
Other purposes	-21	0
Total net capital investment	5,713	5,297

NET DEBT, NET FINANCIAL WORTH AND NET WORTH

At the end of 2010-11, the level of Australian Government net debt was \$84.6 billion (6.1 per cent of GDP) which was \$2.2 billion higher than estimated at the time of the 2011-12 Budget.

Despite a lower than expected debt issuance in 2010-11, the change in net debt since Budget was driven largely as a result of the market value of Commonwealth Government Securities (CGS) being higher than expected because of lower interest rates. The change in net debt also reflected a reclassification of some assets by the Future Fund to equity investments which are not included in net debt calculations.

The change in the market value of CGS described above also impacts on net financial worth and net worth.

- Net financial worth was -\$200.8 billion at the end of 2010-11 compared with -\$176.6 billion estimated at the time of the 2011-12 Budget.
- Net worth was -\$95.4 billion at the end of 2010-11 compared with -\$68.3 billion estimated at the time of the 2011-12 Budget.

In addition changes to net financial worth and net worth since the 2011-12 Budget also reflect a \$15.6 billion increase in the Government's superannuation liability, owing to the lower than estimated discount rate at 30 June 2011. Also impacting on net financial

worth and net worth is the change in the accounting treatment for disaster recovery payments made to the States and Territories through the Natural Disaster Relief and Recovery Arrangements program.

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

	2010-11 Estimate at 2011-12 Budget \$b	2010-11 Outcome \$b
Financial assets	214.6	214.9
Non-financial assets	108.4	105.4
Total assets	323.0	320.4
Total liabilities	391.3	415.8
Net worth	-68.3	-95.4
Net financial worth(a)	-176.6	-200.8
Per cent of GDP	-12.7	-14.4
Net debt(b)	82.4	84.6
Per cent of GDP	5.9	6.1
Net interest payments	4.6	4.6
Per cent of GDP	0.3	0.3

(a) Net financial worth equals total financial assets minus total liabilities.

(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.

