

PART 1: AUSTRALIAN GOVERNMENT BUDGET OUTCOME

OVERVIEW

In 2014-15, the Australian Government general government sector recorded an underlying cash deficit of \$37.9 billion (2.4 per cent of gross domestic product (GDP)). The fiscal balance was in deficit by \$39.9 billion (2.5 per cent of GDP).

In cash terms, the Final Budget Outcome for 2014-15 was a \$3.3 billion improvement compared with the underlying cash deficit estimated at the time of the 2015-16 Budget. Total payments were \$2.9 billion lower than expected and total receipts were \$1.0 billion higher than expected. Net Future Fund earnings were \$660 million higher than expected at the time of the 2015-16 Budget.

In fiscal balance terms, the Final Budget Outcome for 2014-15 deteriorated by \$0.5 billion compared with the fiscal balance deficit estimated at the time of the 2015-16 Budget, with revenue \$3.4 billion lower, expenses \$2.4 billion lower, and net capital investment \$433 million lower than expected at the time of the 2015-16 Budget.

Real GDP growth in 2014-15 was in line with the 2015-16 Budget forecast of 2½ per cent. With the resources sector transitioning from the investment to production phase, mining exports grew strongly while mining-related investment detracted from growth in line with expectations. Housing construction grew at its fastest rate in 12 years, contributing significantly to growth. Although the fall in the terms of trade was lower than expected at the time of the 2015-16 Budget, it was the largest annual fall in over fifty years. The lower-than-expected decline in the terms of trade was due to both lower-than-expected prices for imports and higher-than-expected prices for agricultural exports. Nominal GDP growth in 2014-15 was slightly higher than the 2015-16 Budget forecast, but well below its long-term average, reflecting the decline in the terms of trade and subdued domestic price growth.

Tax receipts for 2014-15 were \$351.7 billion, \$222 million (0.1 per cent) higher than forecast at the 2015-16 Budget.

Australian Government general government sector net debt was \$238.7 billion (14.8 per cent of GDP), which is \$11.5 billion lower than estimated at the time of the 2015-16 Budget. The decline in net debt was primarily driven by a decline in the market value of the existing stock of Commonwealth Government Securities (CGS) on issue, owing to higher-than-expected yields. Australian Government general government sector net financial worth was -\$421.1 billion and net worth was -\$302.3 billion at the end of 2014-15.

Table 1: Australian Government general government sector budget aggregates

	2013-14 Outcome	2014-15 Estimate at 2015-16 Budget	2014-15 Outcome	Change on 2015-16 Budget
	\$b	\$b	\$b	\$b
Receipts	360.3	377.3	378.3	1.0
Per cent of GDP	22.8	23.5	23.5	
Payments(a)	406.4	415.0	412.1	-2.9
Per cent of GDP	25.7	25.9	25.6	
Net Future Fund earnings	2.3	3.4	4.1	0.7
Underlying cash balance(b)	-48.5	-41.1	-37.9	3.3
Per cent of GDP	-3.1	-2.6	-2.4	
Revenue	373.9	384.1	380.7	-3.4
Per cent of GDP	23.6	23.9	23.6	
Expenses	413.8	420.3	417.9	-2.4
Per cent of GDP	26.2	26.2	25.9	
Net operating balance	-39.9	-36.2	-37.2	-0.9
Net capital investment	3.8	3.1	2.7	-0.4
Fiscal balance	-43.7	-39.4	-39.9	-0.5
Per cent of GDP	-2.8	-2.5	-2.5	
<i>Memorandum item:</i>				
Headline cash balance	-52.5	-43.2	-38.9	4.3

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

(b) Excludes net Future Fund earnings.

UNDERLYING CASH BALANCE

The 2014-15 underlying cash deficit was \$37.9 billion, an improvement of \$3.3 billion compared with the estimate at the time of the 2015-16 Budget. This was the result of lower payments of \$2.9 billion and higher receipts of \$1.0 billion, partly offset by higher net Future Fund earnings of \$660 million.

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

	2014-15 Estimate at 2015-16 Budget \$b	2014-15 Outcome \$b	Change on 2015-16 Budget \$b
Cash receipts			
Operating cash receipts	375.1	376.0	0.9
Capital cash receipts(a)	2.2	2.3	0.1
Total cash receipts	377.3	378.3	1.0
Cash payments			
Operating cash payments	403.2	400.7	-2.5
Capital cash payments(b)	11.8	11.3	-0.5
Total cash payments	415.0	412.0	-3.0
Finance leases and similar arrangements(c)	0.0	0.1	0.1
GFS cash surplus(+)/deficit(-)	-37.7	-33.8	3.9
Per cent of GDP	-2.3	-2.1	
<i>less</i> Net Future Fund earnings	3.4	4.1	0.7
Underlying cash balance(d)	-41.1	-37.9	3.3
Per cent of GDP	-2.6	-2.4	
<i>Memorandum items:</i>			
Net cash flows from investments in financial assets for policy purposes	-5.5	-5.2	0.3
<i>plus</i> Net Future Fund earnings	3.4	4.1	0.7
Headline cash balance	-43.2	-38.9	4.3

(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 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 net Future Fund earnings.

Receipts

Total tax receipts for 2014-15 were \$351.7 billion, \$222 million (0.1 per cent) higher than expected in the 2015-16 Budget. Excluding GST, tax receipts were broadly in-line with 2015-16 Budget estimates.

Compared with the 2015-16 Budget, higher-than-expected individual and other withholding tax, GST, excise and customs duty receipts were partially offset by lower-than-expected company and superannuation fund tax receipts.

- Receipts from total individuals and other withholding taxes were \$1.3 billion (0.7 per cent) above the 2015-16 Budget estimate. This was primarily attributable to stronger-than-expected payments on assessment and lower-than-expected refunds related to 2013-14 income year returns lodged in May and June, reflecting in part stronger-than-expected capital gains tax liabilities.
- Total excise and customs duty receipts were \$768 million (2.3 per cent) above the 2015-16 Budget estimate. This primarily reflected higher-than-anticipated receipts for tobacco excise and customs duty.
- Receipts from the GST were \$257 million (0.5 per cent) above the 2015-16 Budget estimate, consistent with stronger-than-expected dwelling investment. Higher-than-expected GST receipts will be reflected in higher payments to the states.
- Company tax receipts were \$1.8 billion (2.7 per cent) below the 2015-16 Budget estimate. This was primarily caused by lower-than-expected monthly instalments in the mining sector.
- Receipts from superannuation fund taxes were \$267 million (4.4 per cent) below the 2015-16 Budget estimate.

Table 3: Australian Government general government sector (cash) receipts

	2014-15 Estimate at 2015-16 Budget \$m	2014-15 Outcome \$m	Change on 2015-16 Budget \$m
Individuals and other withholding taxes			
Gross income tax withholding	166,300	166,352	52
Gross other individuals	37,600	38,541	941
/less: Refunds	27,300	27,033	-267
Total individuals and other withholding tax	176,600	177,860	1,260
Fringe benefits tax	4,350	4,347	-3
Company tax	68,000	66,174	-1,826
Superannuation fund taxes	6,140	5,873	-267
Minerals resource rent tax(a)	60	60	0
Petroleum resource rent tax	1,800	1,810	10
Income taxation receipts	256,950	256,125	-825
Goods and services tax	54,285	54,542	257
Wine equalisation tax	780	792	12
Luxury car tax	500	520	20
Excise and customs duty			
Petrol	6,000	6,035	35
Diesel	8,800	8,908	108
Other fuel products	2,960	2,885	-75
Tobacco	8,280	8,848	568
Beer	2,340	2,310	-30
Spirits	1,980	1,996	16
Other alcoholic beverages(b)	910	899	-11
Other customs duty			
Textiles, clothing and footwear	650	645	-5
Passenger motor vehicles	700	732	32
Other imports	1,600	1,664	64
/less: Refunds and drawbacks	420	356	-64
Total excise and customs duty	33,800	34,568	768
Carbon pricing mechanism	1,630	1,627	-3
Agricultural levies	492	515	24
Other taxes	3,016	2,986	-30
Indirect taxation receipts	94,502	95,550	1,048
Taxation receipts	351,452	351,675	222

Table 3: Australian Government general government sector (cash) receipts (continued)

	2014-15 Estimate at 2015-16 Budget \$m	2014-15 Outcome \$m	Change on 2015-16 Budget \$m
Sales of goods and services	9,218	8,922	-297
Interest received	3,131	3,056	-75
Dividends	4,121	4,745	624
Other non-taxation receipts	9,386	9,904	517
Non-taxation receipts	25,856	26,626	769
Total receipts	377,309	378,301	992
<i>Memorandum:</i>			
<i>Total excise</i>	<i>24,050</i>	<i>23,663</i>	<i>-387</i>
<i>Total customs duty</i>	<i>9,750</i>	<i>10,905</i>	<i>1,155</i>
<i>Medicare and DisabilityCare Australia levy</i>	<i>14,050</i>	<i>14,640</i>	<i>590</i>

(a) The MRRT applied until 30 September 2014.

(b) Other alcoholic beverages are those not exceeding 10 per cent by volume of alcohol (excluding beer, brandy and wine).

Non-tax receipts (excluding Future Fund receipts) were \$22.0 billion in 2014-15, \$256 million higher than estimated at the time of the 2015-16 Budget. This increase largely relates to greater than expected returns of unclaimed monies and receipts under health programmes which were higher than estimated at the time of the 2015-16 Budget.

Payments

Total cash payments were \$412.1 billion in 2014-15, \$2.9 billion lower than estimated at the time of the 2015-16 Budget. Total payments (excluding Future Fund payments) were \$411.5 billion, \$2.8 billion lower than estimated at the time of the 2015-16 Budget. The outcome reflects decreases in:

- payments associated with onshore immigration detention, largely reflecting occupancy levels lower than estimated, and payments in lower cost forms of immigration detention (\$389 million);
- demand and costs for a range of demand-driven health programmes, including private health insurance and pharmaceutical related programmes (\$372 million);
- payments related to Department of Defence (including Defence Materiel Organisation) operations, largely due to lower than expected payments for sustainment contract services, purchase of land, buildings, plant and equipment, construction support charges and estate maintenance (\$345 million);
- Family Tax Benefit payments, which largely reflects a lower than expected number of reconciliation payments and the timing of these payments (\$331 million);

- payments for Natural Disaster Relief, largely reflecting decreased funding under the Natural Disaster Relief and Recovery Arrangements (NDRRA) determination and the outcome of the audit on existing projects for non-Queensland jurisdictions which reduced eligibility for some projects (\$252 million);
- payments for a range of education and training related programmes under the Building Skills and Capability programme, largely reflecting lower than expected take up (\$224 million);
- payments for the Interest on Overpayment and Early Payment of Tax programme, largely reflecting the Australian Taxation Office's strategy to reduce the time taken to settle disputed cases (\$150 million);
- payments under a range of national partnership agreements, including housing (\$133 million) largely reflecting delays in the achievement of project milestones; and
- average payment rates under the Income Support for Seniors programme, as a result of stronger than anticipated increases in asset values held by recipients of the Age Pension (\$129 million).

These and other decreases were partially offset by the extinguishment of the provision for underspends in the Contingency Reserve.

Net Future Fund Earnings

The underlying cash balance excludes net Future Fund earnings. Net Future Fund earnings were \$4.1 billion in 2014-15, \$660 million higher than estimated at the time of the 2015-16 Budget, largely reflecting higher-than-estimated receipts from investment returns.

FISCAL BALANCE

The 2014-15 fiscal balance deficit was \$39.9 billion, a \$0.5 billion deterioration on the deficit of \$39.4 billion estimated at the time of the 2015-16 Budget. The cash receipt and payment variations outlined previously have a similar impact on revenue and expenses since fiscal and cash variances are typically driven by the same factors. However, the deterioration in the fiscal balance of \$0.5 billion, compared with the improvement in the underlying cash balance of \$3.3 billion, is the result of additional factors, as outlined below.

Revenue

Total revenue was \$380.7 billion in 2014-15, \$3.4 billion lower than estimated at the time of the 2015-16 Budget. In comparison, total cash receipts were \$378.3 billion in 2014-15, \$1.0 billion higher than estimated at the time of the 2015-16 Budget.

Taxation revenue was \$355.4 billion in 2014-15, \$3.8 billion lower than the estimate at the 2015-16 Budget.

Part 1: Australian Government Budget Outcome

The shortfall in taxation revenue was mostly driven by lower-than-expected company tax revenue. The company tax revenue shortfall totalled \$3.6 billion and comprised lower-than-expected company cash receipts collected in 2014-15 and a reduction in revenue from the settlement of disputed amounts.

Total non-tax revenue was \$25.4 billion in 2014-15, \$408 million higher than estimated at the 2015-16 Budget. Non-tax receipts were \$26.6 billion, \$769 million higher than estimated at Budget.

The \$361 million difference in outcomes for non-tax revenue and non-tax receipts is largely a result of increases in non-tax receipts, which did not have a corresponding non-tax revenue impact in 2014-15. This includes higher dividends from the Reserve Bank of Australia than estimated at the time of the 2015-16 Budget, partially offset by lower than estimated interest revenue items with non-cash impacts.

Table 4: Australian Government general government sector (accrual) revenue

	2014-15 Estimate at 2015-16 Budget \$m	2014-15 Outcome \$m	Change on 2015-16 Budget \$m
Individuals and other withholding taxes			
Gross income tax withholding	167,860	167,645	-215
Gross other individuals	40,600	40,565	-35
/less: Refunds	27,300	27,033	-267
Total individuals and other withholding tax	181,160	181,177	17
Fringe benefits tax	4,480	4,393	-87
Company tax	69,900	66,311	-3,589
Superannuation fund taxes	6,200	5,890	-310
Minerals resource rent tax(a)	60	63	3
Petroleum resource rent tax	1,640	1,319	-321
Income taxation revenue	263,440	259,151	-4,289
Goods and services tax	56,690	56,462	-228
Wine equalisation tax	820	828	8
Luxury car tax	510	540	30
Excise and customs duty			
Petrol	6,020	6,042	22
Diesel	8,830	8,918	88
Other fuel products	2,980	2,887	-93
Tobacco	8,290	8,826	536
Beer	2,350	2,312	-38
Spirits	1,980	1,997	17
Other alcoholic beverages(b)	910	900	-10
Other customs duty			
Textiles, clothing and footwear	650	645	-5
Passenger motor vehicles	700	732	32
Other imports	1,600	1,665	65
/less: Refunds and drawbacks	420	356	-64
Total excise and customs duty	33,890	34,570	680
Agricultural levies	492	509	17
Other taxes	3,275	3,295	21
Indirect taxation revenue	95,677	96,205	529
Taxation revenue	359,117	355,357	-3,759

Table 4: Australian Government general government sector (accrual) revenue (continued)

	2014-15 Estimate at 2015-16 Budget \$m	2014-15 Outcome \$m	Change on 2015-16 Budget \$m
Sales of goods and services	9,277	9,058	-219
Interest	3,653	3,147	-506
Dividends	4,796	6,178	1,382
Other non-taxation revenue	7,255	7,006	-249
Non-taxation revenue	24,981	25,389	408
Total revenue	384,098	380,746	-3,351
<i>Memorandum:</i>			
<i>Total excise</i>	<i>24,140</i>	<i>23,687</i>	<i>-453</i>
<i>Total customs duty</i>	<i>9,750</i>	<i>10,884</i>	<i>1,134</i>
<i>Medicare and DisabilityCare Australia levy (c)</i>	<i>14,050</i>	<i>14,640</i>	<i>590</i>

(a) The MRRT applied until 30 September 2014.

(b) Other alcoholic beverages are those not exceeding 10 per cent by volume of alcohol (excluding beer, brandy and wine).

(c) From the 2014-15 Budget, Medicare and DisabilityCare Australia levy revenue is based on when collections relating to the levy are received.

Expenses and net capital investment

Total expenses were \$417.9 billion in 2014-15, \$2.4 billion lower than estimated at the time of the 2015-16 Budget. Total net capital investment for 2014-15 was \$2.7 billion, \$433 million lower than the estimate of \$3.1 billion. This results in a lower than estimated net outcome for expenses and net capital investment of \$2.8 billion.

In comparison, cash payments were \$412.1 billion in 2014-15, \$2.9 billion lower than estimated at the 2015-16 Budget.

The difference of \$51 million between the lower than estimated net outcome for expenses and net capital investment of \$2.8 billion and the lower than estimated outcome for cash payments of \$2.9 billion largely relates to the timing difference between when payments are made and expenses are accrued. This includes the provision of GST to the States and Territories, and timing differences between expenses and payments related to the Department of Defence (including Defence Materiel Organisation).

Further information on expenses by function and sub-function are provided in Appendix A.

Table 5: Australian Government general government sector expenses by function

	2014-15 Estimate at 2015-16 Budget \$m	2014-15 Outcome \$m	Change on 2015-16 Budget \$m
General public services			
Legislative and executive affairs	1,165	1,124	-42
Financial and fiscal affairs	7,763	7,145	-618
Foreign affairs and economic aid	6,324	6,393	69
General research	2,847	2,766	-81
General services	860	720	-140
Government superannuation benefits	6,208	6,457	249
Defence	24,612	23,790	-822
Public order and safety	4,580	4,443	-138
Education	31,202	31,101	-101
Health	67,037	65,696	-1,341
Social security and welfare	149,107	147,787	-1,320
Housing and community amenities	4,940	4,835	-105
Recreation and culture	3,520	3,534	14
Fuel and energy	6,986	6,799	-187
Agriculture, forestry and fishing	2,731	2,411	-321
Mining, manufacturing and construction	3,218	3,550	332
Transport and communication	6,504	6,433	-71
Other economic affairs			
Tourism and area promotion	172	186	14
Total labour and employment affairs	3,903	3,673	-231
Immigration	4,459	4,036	-422
Other economic affairs nec	2,146	2,151	5
Other purposes			
Public debt interest	14,468	14,491	23
Nominal superannuation interest	8,989	8,999	10
General purpose inter-governmental transactions	57,467	58,859	1,392
Natural disaster relief	36	522	486
Contingency reserve	-911	0	911
Total expenses	420,335	417,898	-2,437

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

	2014-15 Estimate at 2015-16 Budget	2014-15 Outcome	Change on 2015-16 Budget
	\$m	\$m	\$m
General public services	792	523	-269
Defence	3,752	3,967	215
Public order and safety	123	68	-55
Education	-16	-9	7
Health	-17	1	18
Social security and welfare	21	7	-14
Housing and community amenities	107	-33	-140
Recreation and culture	71	-28	-99
Fuel and energy	2	-1	-3
Agriculture, forestry and fishing	67	129	62
Mining, manufacturing and construction	-6	-8	-2
Transport and communication	-2,145	-2,144	1
Other economic affairs	369	233	-136
Other purposes	17	0	-17
Total net capital investment	3,138	2,706	-433

Table 7: Australian Government general government sector purchases of non-financial assets by function

	2014-15 Estimate at 2015-16 Budget	2014-15 Outcome	Change on 2015-16 Budget
	\$m	\$m	\$m
General public services	1,435	1,505	70
Defence	7,882	7,818	-64
Public order and safety	507	470	-37
Education	13	21	8
Health	81	79	-2
Social security and welfare	357	382	26
Housing and community amenities	51	56	5
Recreation and culture	318	309	-10
Fuel and energy	4	4	0
Agriculture, forestry and fishing	102	158	55
Mining, manufacturing and construction	8	6	-1
Transport and communication	57	46	-11
Other economic affairs	791	698	-93
Other purposes	17	0	-17
Total Government purchases of non-financial assets	11,622	11,553	-70

HEADLINE CASH BALANCE ESTIMATES

The headline cash balance consists of the underlying cash balance, net cash flows from investments in financial assets for policy purposes (for example, the equity funding of NBN Co), and net Future Fund earnings.

Table 8 provides further detail between the underlying and headline cash balance estimates of the Australian Government general government sector in 2014-15.

At the end of 2014-15, the headline cash balance was \$38.9 billion, a \$4.3 billion improvement from the estimate at the time of the 2015-16 Budget. The improvement in the headline cash balance was primarily driven by the change in the underlying cash balance and net Future Fund earnings.

Table 8: Details of the Australian Government general government sector items between the underlying and headline cash balance

	2014-15 Estimate at 2015-16 Budget	2014-15 Outcome	Change on 2015-16 Budget
	\$m	\$m	\$m
2014-15 Outcome underlying cash balance(a)	-41,121	-37,867	3,253
plus Net cash flows from investments in financial assets for policy purpose			
Students loans	-6,381	-6,330	51
NBN investment	-4,917	-4,767	150
Sale of Medibank Private	5,679	5,688	10
Residential mortgage backed securities	1,980	1,755	-225
Trade support loans	-72	-70	1
Asbestos removal in the ACT - Mr Fluffy loose fill asbestos remediation	-750	-750	0
Net other	-1,039	-684	355
Total net cash flows from investments in financial assets for policy purposes	-5,500	-5,158	342
plus Net Future Fund earnings	3,429	4,089	660
2014-15 Outcome headline cash balance	-43,191	-38,936	4,255

(a) Excludes net Future Fund earnings.

NET DEBT, NET FINANCIAL WORTH AND NET WORTH

At the end of 2014-15, the level of Australian Government net debt was \$238.7 billion (14.8 per cent of GDP), \$11.5 billion lower than estimated at the time of the 2015-16 Budget.

The decline in net debt compared with the level expected at the 2015-16 Budget was primarily driven by a decline in the market value of the existing stock of Commonwealth Government Securities (CGS) on issue, owing to higher-than-expected yields. CGS are reported in the general government sector balance sheet in market value terms, consistent with the Australian Accounting Standards.

Part 1: Australian Government Budget Outcome

A lower-than-expected underlying cash deficit also contributed to the decline in net debt compared with the level expected at Budget.

Net financial worth was -\$421.1 billion at the end of 2014-15, compared with -\$350.1 billion estimated at the 2015-16 Budget.

Net worth was -\$302.3 billion at the end of 2014-15, compared with -\$231.3 billion estimated at the 2015-16 Budget.

The change in the market value of CGS described above improves net financial worth and net worth. In addition to this, changes in net financial worth and net worth since the Budget reflect a significant increase in the Government's reported superannuation liability. This is the result of a large difference between the long-term discount rate used in the Budget (6.0 per cent per annum) and the actual bond rate as at 30 June 2015 (3.7 per cent per annum) used to value the superannuation liability. The use of two different discount rates is the usual practice, applied in previous Budgets and Final Budget Outcomes.

Table 9: Australian Government general government sector net worth, net financial worth, net debt and net interest payments

	2014-15 Estimate at 2015-16 Budget	2014-15 Outcome	Change on 2015-16 Budget
	\$b	\$b	\$b
Financial assets	309.9	315.6	5.8
Non-financial assets	118.8	118.8	0.0
Total assets	428.7	434.4	5.8
Total liabilities	660.0	736.8	76.8
Net worth	-231.3	-302.3	-71.0
Net financial worth(a)	-350.1	-421.1	-71.0
Per cent of GDP	-21.8	-26.1	
Net debt(b)	250.2	238.7	-11.5
Per cent of GDP	15.6	14.8	
Net interest payments	10.9	10.9	0.0
Per cent of GDP	0.7	0.7	

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

(b) Net debt equals the sum of deposits held, government securities, loans and other borrowing, minus the sum of cash and deposits, advances paid and investments, loans and placements.